Austria Sch22	Indonesia Rp3100	Portugal Esc100
Bahrain Din0.650	Israel IS3.50	S.Arabia Rls6.00
Belgium BFr48	Italy L1600	Singapore S$4.10
Canada C$1.00	Japan Y600	Spain Pta125
Cyprus C£0.75	Jordan Fils500	Sri Lanka Rup30
Denmark DKr9.00	Kuwait Fils500	Sweden SKr8.00
Egypt E£2.25	Lebanon $L125.00	Switzerland SFr2.20
Finland Fmk7.00	Luxembourg LFr48	Taiwan NT$65
France FFr6.50	Malaysia Rin4.25	Thailand Bt50
Germany DM2.20	Mexico Pes300	Tunisia Din0.800
Greece Dr100	Morocco Dh6.00	Turkey L500
Hong Kong HK$12	Netherlands Fl3.00	UAE Dh6.50
India Rup15	Norway NKr8.00	USA $1.00

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FINANCIAL TIMES

EUROPE'S BUSINESS NEWSPAPER

No. 30,408 Monday December 7 1987 D 8523 A

Right to the door of Europe's steel furnace, Page 21

World News

Bangladesh parliament dissolved by Ershad

The Bangladesh parliament was dissolved by President Ershad. Fresh elections should be held within 90 days according to the country's constitution, but it remained unclear whether President Ershad would follow this route.

The television announcement came after a 90-minute cabinet meeting last night. **Page 22**

Iran attacks tanker

Iranian gunboats attacked two fully-laden tankers in the southern Gulf, killing at least one crewman and setting one ship ablaze, shipping sources said. In a separate incident, Iraq admitted that one of its warplanes bombed a Saudi island in the northern Gulf on Friday by mistake.

S Koreans rally

Millions of South Koreans attended rallies as the presidential election campaign moved into its final stages. Up to 30 per cent are still said to be undecided. **Page 5**

Haiti strike threat

Political and union support appeared to be building up last night for today's general strike in Haiti in protest at last Sunday's massacre when gunmen, opposed to the elections, rampaged through Port-au-Prince killing at least 35 people.

Kaunda offers talks

Zambian President Kenneth Kaunda said he would consider mediating in Angola's 12-year civil war if asked by the Angolan Government.

Afghans snub Zia

The main Afghan rebel group rejected the suggestion by Pakistan President Zia-ul-Haq that it join the Kabul ruling party in an interim Government while Soviet troops left Afghanistan.

Bolivians go to polls

Bolivians voted yesterday in the first municipal elections in 40 years. The voting will bring substantial defeat for the ruling Nationalist Revolutionary Movement, according to opinion polls.

'Strengthen EMS' call

European Monetary System should resist the influence of countries with the most restrictive monetary policies, said Edouard Balladur, French Finance Minister.

India's extra troops

India may raise its troop strength in Sri Lanka from two divisions to three-and-a-half divisions – over 60,000 men.

Unions warn OECD

Leaders of an organisation representing 60m trade unionists will tell 24 OECD ambassadors next week that their reaction to the stock market crash is complacent. **Page 4**

Polish price rises

Poland will spread next year's planned price rises over three years except for fuel, power and industrial costs. **Page 22**

Court calls Peres

The Israeli court trying alleged nuclear spy Mr Mordechai Vanunu ordered Foreign Minister Shimon Peres to appear as a witness, the defence attorney said.

Zulus accuse S Africa

Zulu chiefs accused the South African Government of deference to white extremists in rejecting proposals for a multiracial legislature for Natal province. **Page 4**

UK unions look to US

Leaders of Britain's two biggest trade unions are considering the US idea of associate membership to help penetrate non-union companies. **Page 13**

Water aid to India

UK may offer an extra £30m-£40m in aid for water supply projects, partly linked to the drought, in addition to £50m earmarked for slum improvement and education. **Page 4**

Business Summary

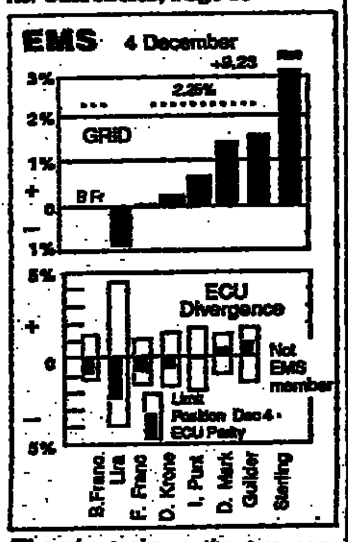
Moody's reviews ratings of US banks

MOODY'S Investors Service is reviewing the credit ratings of large US banks with loan exposure to developing countries because of what it sees as a rapid decline in the value of the debt. The New York-based agency lowered its ratings for the Eurobonds of Brazil, Argentina and Venezuela, which have been serviced punctually throughout the five-year-old debt crisis. **Page 24**

EUROPEAN Monetary System: Attention was focused on a co-ordinated cut in interest rates last week, led by West Germany. Not only was this seen as a further attempt to stabilise the dollar, but also as a move to reduce a build-up of pressure on weaker members of the EMS.

While the West German discount rate fell by half-a-point, French rates were cut by just ¼ per cent, indicating the authorities' desire to avoid a re-alignment of parities before next spring's presidential election.

However, the French franc and the Belgian franc remained among the weakest currencies, although both were trading well within their Ecu divergence limits. **Currencies, Page 38**



The chart shows the two constraints on European Monetary System exchange rates. The upper grid, based on the weakest currency in the system, defines the cross-rates from which no currency (except the lira) may move by more than 2¼ per cent. The lower chart gives each currency's divergence from the "central rate" against the European Currency Unit (Ecu), itself derived from a basket of European currencies.

TOKYO: Nikkei index rose 70.66 to 22,673.41 in a moderately light half-day's trading on Saturday. **World stock markets, Page 35**

JAPAN'S financial system inhibits developments of new financial markets and needs a review, say advisers to Japan's finance ministry. **Page 22**

COCA-COLA is planning to invest FFr200m ($35m) in a new French bottling plant in the enterprise zone of Dunkirk in northern France. **Page 4**

EUROPEAN Community producers of upgraded tungsten products intend to charge China with dumping the metal and will demand retaliation unless that country raises prices within three months. **Page 4**

GENERAL Electric Company's electrified railway subsidiary wants to break into the European market through a newly-agreed collaborative research and manufacturing agreement with the Italian Ansaldo group. **Page 10**

BRITISH SHOE Corporation, Sears Group subsidiary, is reviewing the future of its manufacturing interests. **Page 9**

MILAN'S stock market opens today in new surroundings. The old bourse in Palazzo Mezzanotte has been cleared to allow refurbishment, and temporary buildings nearby will house the bourse for at least three years. **Page 24**

FERRUZZI chairman Raul Gardini is taking over as chairman of Italy's debt-laden chemicals group Montedison and plans wide-ranging rationalisation. Food group Ferruzzi holds 41.4 per cent of Montedison. **Page 24**

TIMBER merchants have been flocking to Britain from all over Europe to buy previously scarce hardwoods from trees blown down in the October 16 storm. **Page 22**

Thatcher seeks to pave way towards US-Soviet accord

BY MICHAEL CASSELL, POLITICAL CORRESPONDENT, IN LONDON

MRS MARGARET Thatcher, the British Prime Minister, will this morning hold two hours of talks with Mr Mikhail Gorbachev, the Soviet leader, during which she hopes to help pave the way for a strategic arms reduction treaty by outlining plans for a US-Soviet agreement on the development of "Star Wars" technology.

The Prime Minister will meet Mr Gorbachev at RAF Brize Norton in Oxfordshire when the Soviet leader breaks his journey to Washington, where he will meet President Reagan and sign an agreement eliminating intermediate nuclear weapons.

On the eve of the meeting, at which she intends to voice Britain's support for the intermediate nuclear forces (INF) deal and to promote the arms reduction process, Mrs Thatcher said she expected very frank discussions with the Soviet leader.

She stressed that, as in Moscow earlier this year, the two leaders would be trying to understand each other's viewpoint and to "impress the validity of one's view on the other." She added: "He knows full well that I will never, never, never let down our guard on defence."

A major obstacle to successful US-Soviet strategic arms talks (Start) remains the disagreement between Moscow and Washington over the link between strategic cuts and space defence programmes, which will provide the focus for the arms control element of the Washington summit.

Mr Gorbachev, who last week revealed that the Soviets were also engaged in "Star Wars" research, is expected to press President Reagan for restrictions on the Strategic Defence Initiative (SDI) programme.

It emerged over the weekend that Mrs Thatcher last week wrote to President Reagan in response to his invitation to US allies for comments on the Washington summit. She congratu-

Continued on Page 22
More on summit, Page 2; Effect of Gorbachev, Page 20

Jews rally in US and Soviet capitals

Jews demonstrated in Moscow and Washington yesterday on the eve of Soviet leader Mikhail Gorbachev's departure for the superpower summit in the US capital. They were demanding emigration rights for Jews from the Soviet Union.

Up to 100 "refuseniks" – those denied exit visas – tried to demonstrate in front of Moscow's foreign ministry building but at least 27 were detained on their way to the site.

Later, about 100 people in a separate demonstration from the Soviet Peace Committee, along with 200 others suspected of being plain clothes police, jostled refuseniks attempting to get through a cordon closing footpaths and underpasses.

In Washington, thousands of Jews and their supporters arrived for a pre-summit rally to urge Mr Gorbachev to allow Jews to emigrate freely.

SAS continues to revise rescue package for BCal

BY CLAY HARRIS IN LONDON

SCANDINAVIAN Airlines System was last night continuing to revise its proposed rescue package for British Caledonian Group in an effort to make it acceptable to the UK's Civil Aviation Authority.

The CAA warned late last week that BCal stood to lose its route licences if the Scandinavian airline took a stake, unless SAS's holding was matched in size by a single UK shareholder.

Despite the rebuff to the second firm proposal it had put to the aviation authority, SAS made clear that it would return this week with a fresh plan.

Talks involving SAS, BCal, their respective financial advisers and potential investors were expected to continue at least until midnight last night.

SAS hopes to produce a formal offer by Wednesday, the day by which BCal directors must respond to the takeover bid by British Airways, worth £141m ($254m) in shares or £119m in cash.

The Scandinavian airline will not bid unless it can convince the aviation authority that BCal would remain British-controlled.

Its hopes centre on Investors in Industry (3i), the investment group owned by British clearing banks. The airline hopes to convince 3i, which owns 41 per cent of BCal, to maintain a stake at least equal to SAS's planned 24 per cent.

As the dominant shareholder in BCal since the airline's creation in 1970, with a representative on its board, 3i exerts considerable influence on other UK institutions with smaller stakes. In recent weeks, its opinion has swung in favour of BCal retaining its independence.

Another possibility, however, rests with International Leisure Group, the UK travel company, which owns the Intasun tour operation and Air Europe, an independent airline.

Morgan Guaranty, the US investment bank advising SAS, had exploratory talks with ILG last week, but it was not clear yesterday whether those discussions were proceeding.

The emergence of ILG as a possible shareholder in BCal is ironic. After their talks about co-operation or merger ended inconclusively in May 1986, the two companies have been at daggers drawn more often than not.

BCal's objections have delayed the granting of licences to Air Europe on routes where the ILG subsidiary would compete with its own services. BCal committed itself to withdrawing these objections only as its desire for takeover by BA cooled and the search for an alternative solution began in earnest.

Although ILG has floated the possibility of bidding for BCal several times, its only concrete action has been to challenge in the High Court the Monopolies and Mergers Commission clearance of BA's bid. The case is expected to be heard before Christmas.

Involvement by ILG would also raise anew the issue of foreign control. Omnicorp Investments, a New Zealand group, holds a potential option over 49 per cent of ILG's ordinary shares as part of the transaction which took ILG private earlier this year.

The option, however, depends on re-flotation, a decision over which ILG management has a veto. The conditions under which Omnicorp's performance-linked stake would reach the maximum 49 per cent are unlikely to be conducive for a stock market issue.

The UK Government's apparent opposition to any SAS-BCal link, meanwhile, came under fire from both the opposition Labour Party and a backbench Conservative MP.

Mr Bryan Gould, Labour's Trade and Industry Secretary, said yesterday that it appeared the Government "intends to ignore the important consider-

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Banco de Bilbao's merger bid for rival Spanish bank fails

BY TOM BURNS IN MADRID

BANCO de Bilbao withdrew its hostile bid for a rival Spanish bank at the weekend, bringing to an acrimonious end a two-week tussle for control and stalling a long-overdue reorganisation of the country's commercial banking system.

Bilbao had sought a merger with the larger Banco Espanol de Credito (Banesto), Spain's second biggest private sector financial institution, aimed at creating a group that would be able to compete with European Community banks.

Its equity and cash offer foundered when the Madrid stock market authorities refused to sanction it and announced instead that trading in shares for both banks, which had been suspended on November 20, would begin today.

The unprecedented saga has deeply scarred the two banks at the centre of the controversy; called into question the viability of contested bids, given the present procedural system of the Spanish markets; and severely embarrassed both the Socialist Government and the monetary authorities.

Mr Jose Angel Sanchez Asiain, Bilbao's chairman, was quoted yesterday as saying that "someone is going to have to answer for this historic failure".

He left open who exactly, out of several contenders, was the chief culprit for halting a takeover he estimated at costing Pta230bn ($2.03bn), and for aborting the dream of overhauling Spanish banking.

The bid failed because the Madrid Bolsa (bourse) said that under present legislation Bilbao could not offer new shares as payment to Banesto's stockholders until the issue had been approved by Bilbao's own shareholders. This interpretation was contested by the regional Bilbao Bolsa, indicating a serious rift among market regulators.

Banco de Bilbao, in a statement yesterday, said the Madrid ruling had effectively made impossible in Spain the practice of exchanging shares "as is normal in more developed countries".

At the centre of Bilbao's bid was Mr Sanchez Asiain's belief that Spanish banks in their present state of health – they are too small, over-staffed, have too many branches and excessive operating costs – will be unable to compete with European banks when restrictions on the latter are lifted in 1992.

The bid was first cleared with, and approved by, the Government and the Bank of Spain. Officials hailed the projected merger enthusiastically and fuelled speculation that Spain's "Big Seven" banks would seek far-reaching alliances among each other.

Bilbao said the result of the episode could be positive for Spanish society: public opinion had been made aware of "the need to modernise our financial system" and the "grave deficiencies" of the Spanish legal framework that frustrated attempts to bring this about.

Optimism grows on eve of superpower meeting

By Stewart Fleming, US Editor, in Washington

SOVIET and US officials see scope to make progress towards cutting long range strategic nuclear weapons when President Ronald Reagan and Mr Mikhail Gorbachev, the Soviet leader, open their superpower summit in Washington tomorrow.

The two men plan five one-on-one sessions over the next three days. The formal centrepiece is to be their signing tomorrow of the treaty eliminating intermediate-range nuclear weapons (INF).

Mr Gennadi Gerasimov, the Soviet Foreign Ministry spokesman, said that Moscow may be prepared to leave on one side for the time being the contentious question of how to constrain the US Strategic Defence Initiative (SDI) in order to allow negotiations to press ahead in Geneva to try and cutby 50 per cent the number of strategic weapons each side now deploys

He also indicated that the differing interpretations of the 1972 Anti-Ballistic Missile Treaty, which are central to the space defence issue, could be put on one side this week. We can "leave this question of interpretation for the next meeting so to say"

But Ms Rozanne Ridgway, the Assistant Secretary of State, said yesterday that "there has been change in the Soviet position, that just very clear. But whether it is a more nuanced way to get to the same objective which to constrain SDI in a way that favours Soviet interests...or an admission that stategic defences could well make a great deal of sense...and they seek simply a period of predictable behaviour between the two sides -that's where the key is.

Mr George Shultz, the US Secretary of State, said there were "reasonably good" propspects that the ABM Treaty was not going to be a stumbling block to the long range nuclear arms (START).

He said that Washington did not want to get bogged down in a debate about whether the narrow interpretation of the ABM Treaty favoured by Moscow or the broad interpretation favoured by the US should be adopted.

However, he insisted how-

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Hopes on EC budget may be thwarted

BY QUENTIN PEEL AND TIM DICKSON IN COPENHAGEN

HOPES FOR a solution to the European Community's budget crisis at an emergency summit in February - agreed on by EC leaders this weekend - could be thwarted by looming elections in both France and West Germany, their top advisers fear.

The decision to call another summit came after two days of negotiations fizzled out on Saturday night, without agreement on a sweeping package of financial reforms and curbs on farm spending. The package was intended to provide the Community with adequate finances for the next five years, and a stable base for the future.

Major differences remained between the 12 member states on how to curb soaring cereal production, how much cash to make available for social and regional spending, and how to share the future burden of EC financing.

In spite of optimistic conclusions from all the EC leaders about the amount of progress made, many senior officials fear that it will be more, not less difficult, to reach agreement in February.

The most intractable political problems in the package of farm spending curbs concern West Germany and France, both of which have early elections, and therefore limited room for manoeuvre.

Chancellor Helmut Kohl of West Germany was the key figure at the summit, as the first to declare that he could not accept a Danish compromise package as the basis for negotiation, and then as the one to propose formally a crisis summit under his own chairmanship on February 11 and 12.

However, his ruling coalition faces tough provincial elections, first in Baden-Wurtemberg in March, and then in May in Schleswig-Holstein - wracked by political scandals concerning his own Christian Democratic Union party.

In France President Francois Mitterrand faces presidential election in May, in which Mr Jacques Chirac, his prime minister, is a major challenger.

All the participants attempted to put a brave public face on the collapse in Copenhagen - stressing the good negotiating atmosphere, and the absence of histrionics from any EC leaders.

Mrs Margaret Thatcher, the British Prime Minister, declared that there had been "a significant move in the right direction" at the summit towards a solution to curb "rocketing spending, particularly on agriculture."

"Rather go for a good agreement in February than a bad or fudged one now," she said. Mr Kohl himself said: "The decision means that we are willing to take the necessary decisions very soon." He insisted that the meeting had not been a failure.

Mitterrand: downbeat

Both Mr Felipe Gonzalez of Spain and Mr Giovanni Goria of Italy expressed more optimism than pessimism about the prospects for February, while President Mitterrand was most downbeat.

The French President said he had called for the suspension of the talks, declaring it "unworthy of Europe and unworthy of France" that the Community leaders should be locked in sterile debate. He blamed the failure on the "balancing game" between the member states in playing off one part of the package against another.

Mrs Thatcher said Mr Mitterrand had "got a little bit sad" towards the end of the summit. She reminded him that everything had looked equally bleak after the failure of the Brussels summit in 1984 to solve the British budget rebate. But a deal had been done in Fontainebleau three months later under his "brilliant" chairmanship.

The real sticking point for both France and West Germany remains the form of the "stabilisers" intended to curb farm spending in each sector. Both countries are opposed to the extent of automatic price curbs, triggered by excess production, favoured by the European Commission, the UK and the Netherlands.

The summit also failed to agree on how much new money to provide for new policies, particularly social and regional spending, and on the precise form of any new financing system.

Italy, in particular, is strongly

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Roger Matthews talks to Tunku Abdul Rahman, father of modern Malaysia, Page 14

Airbus benefits from £985m Iberia orders

BY TOM BURNS IN MADRID

IBERIA, Spain's national airlines, announced at the weekend a Pta199bn (£985m) buying spree of short-, medium- and long-range aircraft.

Iberia is to re-equip half its fleet and increase the company's involvement with the airbus programme through the purchase of the European consortium's long-range jumbo, the Airbus 340.

About Pta120bn will be spent on the acquistion of 17 McDonnell Douglas MD-87 twin jet aircraft carrying 117 passengers and on 15 150-passenger units of the European medium-range aircraft, the Airbus 320. Pricing details were not revealed.

The balance, some Pta79bn, will be spent on eight wide-bodied Airbus 340s which will be replacing the airline's DC-10 fleet in the mid-1990s.

Iberia said it had opted for 340s to share in its final design and to obtain all the benefits of a "promotional client" status.

The first five McDonnell Douglas aircraft, which will replace Iberia's existing DC-9s, will be in service in the last quarter of 1989 and the remaining 12 will be delivered in 1990. The Airbus 320s, intended to replace Iberia's Boeing 727 fleet, will be delivered in 1990 and 1991.

The orders for the 40 aircraft come in the wake of a strong upturn in Iberia's financial position. Following Pta11bn losses in 1985 and Pta880m profits last year, the company is expected to post Pta10bn pre-tax profits this year.

Iberia is hoping to raise some Pta30bn from the sale of the aircraft it will be phasing out. Further financing for the presently wholly public-owned company may come from the placement of a minority block of shares on the Madrid bourse.

Ceausescu dismisses his Minister of Finance

BY JUDY DEMPSEY IN VIENNA

THE ROMANIAN Minister of Finance was sacked at the weekend for "failing to fulfil his job obligations", Agerpress, the Romanian news agency, reported.

Mr Alexandru Babe was dismissed by presidential decree after he was directly criticised last Wednesday in Scinteia, the Communist Party daily for negotiating high interest rates on loans issued to Romania by the World Bank.

In a sharp attack on the World Bank for it's "discriminatory and usurious" interest rates, the paper said the Romanian authorities, who owe nearly $2bn to the bank, were now considering withdrawing altogether.

In the past, Mr Ceausescu has sacked or rotated his ministers on the grounds of incompetence, as well as seeking scapegoats for what are regarded as misguided economic policies. Mr Babe's dimissal, however, coincides with a deepening of the economic crisis brought about largely by current economic policies.

One of the main architects of the current economic policy was not Mr Babe but in fact, Mr Ceausescu. Over the past five years, he has been pursuing a single-minded programme of repaying the country's hard currency loans to western financial institutions. Since 1981, the external debt has been decreased by half – to about $6bn.

The social consequences of such a policy has led to food rationing, a sharp fall in living standards, cuts in energy, electricity and gas and a sharp fall in imports and capital investments. Up until recently Mr Ceausescu faced little overt opposition to such policies. He may now be facing the political cost of such policies.

Last month, for instance, in an unprecedented gesture of opposition, thousands of workers in Brasov in central Romania downed tools in the "Steagul Ruse" factory and marched towards the party headquarters demanding bread and an end to the dictatorship. The leaders of the demonstration have since been interrogated and have been sacked along with the management of the factory who now face prosecution.

AFTER TWO DAYS OF SURPRISINGLY GOOD-NATURED, BUSINESSLIKE NEGOTIATIONS, ALL EC LEADERS PUT A BRAVE FACE ON FAILURE

Danes see internal market downside

By Tim Dickson in Brussels

FOR all the glamour, prestige and (perhaps) profit of hosting a European Community summit, the Danes are probably glad that it is finally over.

Somewhat embarrassingly for the Government currently in the chair of the EC Council of Ministers, the preliminary results of a new poll published on the first day of the Copenhagen meeting confirmed Denmark as the least enthusiastic member state when it comes to scrapping barriers to an internal European market.

The survey generally shows a high degree of Euro excitement - four out of five European citizens see advantages in being able to settle, work, move goods and savings, and carry cash in unlimited amounts from one member state to another, while three out of five want freedom to buy property anywhere in the Community.

It is only the Danes and the British who tend to emphasise the downside of these developments. The UK for example is the only country where more people see a disadvantage to removing frontier controls than see an advantage.

An overwhelming 59 per cent of Danes do not like freedom to buy land while 44 per cent prefer public contracts to go to Danish firms even when they are more expensive, with only 38 per cent in favour of awarding them to "outsiders" in these circumstances.

Asked generally whether they thought the single common market was a good thing European citizens appear surprisingly more indifferent in the northern part of the Community (which is expected to benefit most) than in the southern Mediterranean states. In Denmark, West Germany, France and the UK, more than 25 per cent answered that it was "neither a good nor bad thing," whilst the percentage of "don't cares" in Italy, Greece, Spain and Portugal was in each case less than 17 per cent.

Kohl's explosion dooms passionless summit

BY QUENTIN PEEL IN COPENHAGEN

THE MOMENT of truth when the European Community summit in Copenhagen turned from the faintest hope of success to the inevitability of failure came right at the start of the second day.

Chancellor Helmut Kohl of West Germany took one look at the compromise plan on which the Danish presidency and teams of experts had laboured all night and exploded: "It is not even a basis for negotiation," he declared.

From then on the marathon effort to agree this year on a sweeping package of budget reforms and curbs on EC farm spending was doomed. When Mr Kohl himself took up a Dutch idea to suspend the proceedings and call another crisis summit in February, it was only the coup de grace.

Yet the Chancellor's outburst on Saturday morning was the only real spark of passion in two days of surprisingly good-natured and businesslike negotiations. It was almost as if none of the 13 heads of state and government (12 prime ministers, plus President Francois Mitterrand of France) ever really thought a deal was on, and therefore saw no need to get worked up.

"The atmosphere was not right," Mr Jacques Delors, the president of the European Commission, and principal author of the reform plan, said later. "You cannot do anything without a bit of passion. The absence of passion worries me."

All the EC leaders put a brave face on the failure. They had surprised themselves at the good atmosphere they maintained - on such normally divisive issues as who must bear the brunt of cuts in farm spending, and how the Community cake will be cut in the future. They were all convinced that some progress had been made.

Their top advisers are much more cautious. Fundamental disagreements remain on several key issues in what is an inextricably interrelated package. The balancing act of getting them all ripe for agreement simultaneously is what has so far proved beyond them.

So what progress was made, where are the stumblingblocks, and what are the consequences of the failure at Copenhagen? What indeed are the prospects for doing the deal in Brussels on February 11 and 12 – the eve of the Carnival weekend in many member states?

The problems now boil down to three: how to bring farm spending under control; by how much to increase the funds for new policies in the poorest parts of the Community; and how to share out the burden of future financing between the 12.

Chancellor Kohl will be in the chair by February, and his own political problem remains central: he is already by far the biggest financier of the Community – with a net contribution of some Ecu4bn (£2.75bn) to Brussels in 1987 – and now he is being asked to pay more, while at the same time his inefficient small farmers are likely to bear the brunt of reforms to the Common Agricultural Policy.

The key crop is cereals, and on that score some progress was made by the summit – although possibly more apparent than real. All the EC leaders now say they accept the principle of "stabilisers" – a system of setting precise production ceilings, which, once breached, would result in progressive price cuts and other disincentives – but the big question remains whether they mean the same thing.

Bonn says it simply wants a complementary system of "set-asides" – paying cereal farmers to take land out of production – to be given equal wait to the stabilisers.

Kohl: put off evil day

Chancellor Kohl's explosion appears to have come when he could not find any reference to set-asides in the Danish compromise. The truth is, it was included only as a footnote to an annexe at the end of the document.

The trouble is that it is not just a matter of putting a set-aside programme into the package. West Germany in particular, and to a lesser extent France, dislikes intensely the idea that price cuts must be automatic and substantial. The UK, the European Commission and the Dutch argue that anything less would be quite ineffective. That division has yet to be resolved.

Perhaps the real reason for failure on the farm score was that France and Germany failed to get their act together during the summit. German officials kept promising a joint Franco-German compromise, but it never materialised. For at heart, France can live with farm price cuts, and Germany cannot.

Yet even if all the farm package can be resolved, the rest of the Delors package is far from agreed. The next real headache is on how much more cash should be spent on new policies, mainly social and regional spending for the poorest, and who should qualify.

The southern states still demand a doubling in funds by 1992. Of the northerners, Mrs Thatcher talked of no more than a 35 per cent increase, France and the Netherlands are close to that line, and West Germany is prepared to go up to 50 per cent, but no more.

The presidency compromise was for a concentration on the poorest regions to allow them to get double by 1995, three years late. But that ran into strenuous opposition from the southern phalanx, and the European Commission.

Concentration of the new funds on the four poorest states (Greece, Ireland, Portugal and Spain), as favoured by Mr Chirac and Mrs Thatcher, would cut out Italy – just when Rome is also deeply distressed by the plans for a new system of Community financing.

There was progress on that financing front, but the Italian problem remains. The latest plan is to switch gradually from national payments to Brussels calculated on a common value added tax base, to increasing amounts coming from a common gross national product base. The latter hits the richer states harder – and Italy as well, thanks to the inclusion of the substantial "black" economy in its GNP statistics, but not in VAT.

The failure to find simultaneous answers on all fronts means that the Community will not have a budget for the first months of the year, if at all. EC Budget Ministers will meet this week to give their formal approval to a system of "provisional twelfths" – financing spending every month with one twelfth of the finance for 1987.

Given the fact that 1987 was already overspent, and two months farm payments have been pushed into 1988, the twelfths are likely to run out on agriculture even sooner. That means national treasuries will have to bear the burden of farm spending, with no prospect of repayment from Brussels. It will cause chronic problems for member states with continuing heavy budget deficits, above all Ireland and Greece, but Belgium too, for example.

So what of the prospects for the emergency summit? There is a real fear among senior advisers, both in the Commission and from the member states, that it will be more, not less difficult.

France will be two months closer to its presidential elections in May. As Mr Delors said: "As a Frenchman, I would say it would have been better in every respect to reach agreement today."

As for West Germany, there are difficult provincial elections for Mr Kohl's coalition in Baden-Wuertemberg in March, and in Schleswig-Holstein in May. The domestic constraint on the Chancellor will only get worse.

Hence the surprise in the summit that it was Mr Kohl who proposed putting off the evil day of decision. But at least he will be in the chair next time, which will put him under moral pressure to be much more accommodating – or to try and find someone else to explode.

Superpowers urged to build on INF deal

BY TIM DICKSON

EUROPEAN Community heads of state have called on the US and the Soviet Union to build on the intermediate range nuclear missiles (INF) Treaty which is expected to be signed in Washington this week.

In separate declarations issued at the end of the Copenhagen Summit they also demanded a new urgency in negotiations for a peaceful settlement to the situation in Afghanistan and expressed grave concern about the various conflicts in the Middle East.

Commenting on the forthcoming summit in Washington, the 12 acknowledged that the event "would mark a significant step forward" in East-West relations and expressed the hope that the INF agreement would enter into force soon.

The statement added: "They consider it essential that this achievement in nuclear arms control should give further impetus to substantive progress in the whole range of present and future bilateral US/Soviet and multilateral negotiations on arms control and disarmament."

In discussions on this issue over dinner on Friday night Mrs Thatcher expressed the hope that a 50 per cent cut in strategic nuclear weapons would be the next stage.

On Afghanistan, where the possibility of some tangible progress at this week's meeting in Washington between Mr Reagan and Mr Gorbachev is also being held out, the 12 paid tribute to the Afghan people's "spirit of independence."

The Declaration said that the European Council believes that there should now be an urgent new impetus to the peace negotiations and called on the Soviet Union to:

●Withdraw all its troops by a date in 1988 according to a fixed timetable.

●Agree to the establishment of a transitional Government, whose independence could not be contested, to make preparations for a new constitution and a genuine act of self-determination.

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'Recycling' helps the EC reduce its food mountains

BRITAIN is helping to reduce the European Community's butter mountain to more manageable proportions through a bizarre recycling venture.

Bridget Bloom on how sometimes bizarre innovation has ended growth in the surplus business

Over the past year about 100,000 tonnes of salted butter have been taken from cold stores throughout the country and reduced to low grade oil by a process known as de-naturing. It has then been sold to manufacturers for incorporation into the animal feed concentrates which are a staple dietary item for cows.

This recycling – which involves the butter being boiled with animal bones and offal to make it unfit for human consumption – has reduced Britain's share of the present butter mountain to just less than 200,000 tonnes, according to EC statistics.

There have been other, slightly more orthodox ways in which the overall butter surplus has been reduced from its peak of 1.45m tonnes this time last year to 708,000 tonnes. Some is being distributed to the poor for Christmas, while considerably more has been sold to the Soviet Union.

Since neither the Soviets nor East Europeans care for Britain's salted butter, this has primarily benefited France and West Germany. In mid-November there were only 8,000 tonnes of butter in German cold stores, for example, compared with nearly 400,000 tonnes a year ago.

However bizarre the methods, some of Europe's biggest food mountains are certainly dwindling. As they do so, they both reduce the cost of the surpluses to the taxpayer and increase the anxieties of Europe's cold storage industry.

In Britain, for example, the government-owned Intervention Board for Agricultural Produce, responsible for administering the surpluses in the UK, is negotiating storage rates 50 per cent lower than a year ago.

The EC distinguishes between two sorts of surpluses: those which have built up over the last three or four years of uncontrolled production; and those which it hopes to prevent or at least regulate through the implementation of production controls.

Milk quotas, introduced in 1984 and tightened last December, are limiting new surpluses of butter and skimmed milk powder, although cows slaughtered so that farmers can keep within quota are temporarily swelling beef stocks.

However, the European Commission's plans to tackle the problem of cereals and vegetable oils, wine and other products through so-called stabilisers, which involve production controls for each commodity, have so far proved politically impossible to negotiate.

The butter being processed into animal feed comes from existing surpluses. It was for these that Mrs Margaret Thatcher, the British Prime Minister, suggested a "clean slate" approach in a recent interview with the Financial Times.

In essence her proposal, which provoked a predictably cool reaction from the commission and other member states, would have national governments, rather than the community budget, bear the cost of disposal. Mr Jacques Delors, the commission president, said the idea was too complex to administer while other member states feared they would end up paying more.

The community has in fact agreed a plan for disposing of existing butter surpluses, which last year accounted for half the total surplus EC farm stocks. These were estimated to have a book value of Ecu11.4bn (£7.85bn) last December although their value on the market was put at Ecu2.2bn. (It may actually prove less: UK sales of butter for animal feed are being made at about £60 a tonne compared with a book value of some £2,200 a tonne including storage costs.)

Jacques Delors: opposed British proposal

Costs of the disposal of 1m tonnes of butter are officially estimated at Ecu3.2bn and will be borne at first by member states, but reimbursed from the community budget between 1989-92. For the rest of the stocks, the commission has proposed a similar disposal plan as part of the draft 1988 budget, not yet accepted by ministers.

Following the most recent sale of 18-month-old butter to the Soviet Union, the EC's disposal plan had succeeded in reducing the butter mountain to 708,000 tonnes by mid- November. The commission hopes that further sales next year will reduce it to some 300,000 tonnes by 1989.

In the last year skimmed milk powder surpluses were reduced from 771,000 tonnes to 732,000 tonnes by the end of September; cereals were down from 12.8m tonnes to about 12m tonnes while refrigerated beef stocks rose from just less than 450,000 tonnes to some 670,000 tonnes.

Mr Walter van den Bergh, chief executive of the Brussels-based European Cold Storage Association, accepts that the boom years of the early 1980s are over for the cold storage industry.

"Cold stores are like cinemas or hotels," he says. "Fixed costs are high and you must have 70-80 per cent occupancy to make a profit." Mr Peter Morris, secretary general of Britain's National Cold Storage Federation, says the industry has been aware for some time that business from storing EC surplus stocks would decline; its hope is that this will be gradual, to give time for adjustment.

Ireland appears to be the only big EC producer of surpluses with no spare capacity: Irish beef and butter are both apparently being stored in the Netherlands, where rates are competitive. Elsewhere, there is considerably more capacity than there is business as intervention boards drive down rates.

Britain's cold storers, who depend on the surpluses for some 20-25 per cent of their business, are reticent about the rates they are having to offer. However, the federation has been unable to conclude a "standard rate" agreement this year. Instead, the intervention board in Reading is negotiating with individual companies, with £1 a tonne a week for butter and £4 a week for "bone-in" beef prevailing, instead of the £1.50 and £6 of only a few months ago.

Storers of cereals and other dry goods are apparently suffering less, because overheads are less and alternative products easier to find. But for cold storers the decline in intervention business has come at a specially bad time, for the poor harvest has reduced the quantities of alternative crops, such as peas, for storage.

Even the big companies, such as Salvessen, which has very little intervention business, is said to be feeling the pinch for this reason. Smaller companies, such as one in the dairying south west of England, say their stocks have been reduced by 50 per cent over the last two months, with no alternative business in sight.

Representatives of the cold storage industry are, of course, cagey about predicting the demise of any part of it. However, one big Belgian company closed earlier this year and it would surprise no one if there was considerable "rationalisation" in other countries over the next year or two.

Banque de France strike worsens

By Paul Betts in Paris

A STRIKE at the Banque de France is adding an extra dimension to the current turmoil of the financial markets in France.

The three-day old strike by a large majority of the central bank's 17,000 employees is already beginning to disrupt the day-to-day operations of the banking system. Centralised cheque clearing activities have been blocked for two days and some automatic cash dispensers in the streets are running out of notes.

The strike, over pay and other benefits, has seen several of the central bank's 440 subsidiaries around the country picketed or occupied by protesting workers. The main bank note printing facility at Chamalieres, near Clermont-Ferrand in central France, has been paralysed for the past three days.

"This is beginning to have an impact on some automatic dispensers which can only function with new notes," acknowledged a Banque de France official last night. He also confirmed that cheque clearing operations as well as other routine activities of the central bank such as payment of wages for the cohorts of French public servants were now increasingly disrupted.

Five of the bank's unions called the strike at the beginning of this week after employees rejected a pay rise of a little over 2 per cent proposed by Mr Jacques de Larosiere, the governor of the Banque de France. Bank workers are also worried about future job cuts because of the introduction of high technology.

Even though the labour unrest at the venerable French institution has yet to cause serious repercussions on French monetary policy – "I don't think we can yet speculate on a sharp drop in the money supply," one banker jokingly suggested – it could not come at a worst time.

Carla Rapaport on the growth of the serious business of comics

Japan gets a laugh from economics

THE JAPANESE are serious about economics, but learning about it has recently become something of a laughing matter.

The business publishing sensation this autumn in Tokyo has been a series of hard-back comic books on the Japanese economic and business scene.

They did so well that Japan's Economic Planning Agency decided to follow suit. Last month, it issued a 22-page comic book version of its annual 654-page white paper on the economy.

Now, the Foreign Ministry is getting in on the act. It is planning a comic book on Japan's foreign policy. In a country that boasts 99 per cent literacy, what is going on?

Mr Kazuyuki Adachi, deputy editor of the books department of the Nihon Kezai Shimbun, says: "The situation in Japan is the same as in the US and Europe. People don't understand economic problems. The readers of the Financial Times and the Nihon Kezai Shimbun (Japan's economic daily) are limited.

"These books are not only for ordinary comic readers, they are for businessmen, students, housewives. They are all influenced by the international economic situation. But specialised books on economy are often too difficult or boring to read," says Mr Adachi.

The economic comic books, Mr Adachi's brainchild, have sold 1.4m copies. As successful books on economics in Japan rarely sell 100,000 copies, Mr Adachi is pleased. Soon, he says, an English version of the comics will be appearing in California and he is negotiating with British and German publishers.

The comics may have to be revised somewhat for foreign consumption. One section on the benefits of the high yen shows a couple of businessmen from the electriciy industry enjoying a strip show in Tokyo's Ginza district. As the stripper, wearing only pants and gun holster, throws off most of her costume, one Japanese says to his date: "The high yen has brought unexpected visitors to this place."

In another section, Detroit car workers are shown bashing Japanese cars. An executive for "Crisky" corporation "Mr Ioncoc" watches the scene on television and smiles. Elsewhere, other familiar foreign faces appear, rendered into cartoon form with a great deal of dash.

The books may not find such a wide audience in foreign countries, however. The Japanese are avid comic readers, devouring an estimated 1.5bn copies in a year. The most popular of these, Shonen Jump, sells about 4m copies a week in Japan, more than Newsweek sells worldwide.

The comic phenonmenon is especially startling to foreigners who are amazed to find pin-striped businessmen studiously poring through thick comic books while riding the underground. Further, many of the most popular comics are wildly violent, pornographic or both. However, the comics are not viewed as a public menace. Japan may have a huge circulation of highly suggestive comics, but it still enjoys one of the lowest crime rates in the developed world.

"In the West, people would be ashamed to be seen with comic books, but here it has a better image. We use comics as subtexts in schools. Also, its popularity is linked to the heavy use of television in Japan," says Mr Adachi.

He says that the roots of the comic's popularity in Japan lies in the student movement of the 1960s. He says that students of that era read special comic books which taught the principles of Marxism. "They read those comics behind the barricades. Now, those same students are today's businessmen and they still like comics," says Mr Adachi.

Mr Adachi also claims that Japanese comics are superior to the Western variety. This, he said, could contribute to a growth in comics in the West if it was emulated. "The expressive technique is more developed and the stories and pictures are better," he said. Indeed, Japan's top comic artists are wealthy national celebrities.

"Personally, I would like to see people reading ordinary books to learn about economics. But these books are a good introduction," he says.

Italian budget deficit set to equal 11.4% of GDP

By John Wyles in Rome

THE ITALIAN public sector deficit for this year looks likely to exceed the Government's revised target of two months ago by around L2,000bn (£904m). The deficit is now expected to reach L111,000bn or 11.4 per cent of gross domestic product.

This total is now being forecaste by officials from the Treasury and the General Accountant's office on the basis of spending and tax revenue patterns for the first nine months. It suggests that the Government underestimated the problem at the end of August when it adopted emergency measures designed to raise an additional L3,500bn of revenues in support of a L109,000bn target.

The 1987 budget targeted a deficit of L100,000bn but it was clear by mid-year that this would be unattainable. Current and capital spending rose by around 7 per cent in the first nine months over the year before. A 12 per cent increase in public employees salary costs is part of the explanation.

The Government is aiming for a 1988 deficit of at most L103,500bn (10.5 per cent of gross domestic product) but much still depends on the Parliament's handling of the Finance Bill.

Hong Kong presses for early direct elections

A GROUP led by a Hong Kong legislator was due to arrive in London today to lobby British Members of Parliament for early direct elections for the colony's Legislative Council, **AP reports from Hong Kong.**

The trip by the nine-member delegation, headed by Councillor Martin Lee, was sponsored by the Committee for the Promotion of Democratic Government, which says its members include some 150 trade unions, student groups and other organizations.

Organizers of the delegation, which is scheduled to spend four days in Britain, claim that a recent Hong Kong government report understates support for direct legislative elections in the territory, which reverts to Chinese rule in 1997.

The government report, based on opinion polls and 134,000 submissions from the public, said the majority of Hong Kong's 5.5m people do not want direct elections next year.

But local groups say the report does not accurately reflect public opinion and should not form the basis of political reforms that the government is expected to announce next year

The Legislative Council now consists of 32 government appointees and 24 members elected by bodies representing labor, lawyers and other groups.

Kabul releases nearly 2,400 in amnesty

THE Soviet-backed government of Afghanistan yesterday freed nearly 2,400 prisoners under an amnesty granted by President Najibullah last week, the official Kabul Radio said, Reuter reports from Islamabad.

The radio, monitored in Islamabad, said 2,300 prisoners were released from the Pul-i-Charkhi prison near the capital Kabul, and 94 were freed in the eastern town of Jalalabad.

Mr Najibullah announced the amnesty in a November 30 speech to a grand assembly in Kabul which approved a new constitution and elected him president for a seven-year term.

Kabul has already given several thousand prisoners amnesties after it launched a "national reconciliation" drive in January to end nine years of guerrilla war which has continued in spite of the presence of about 100,000 Soviet troops in the country.

India replaces general in Sri Lanka after killings

BY MERVYN DE SILVA IN COLOMBO

MAJ-GEN R. P. Singh, who commanded the Indian peace-keeping force in the eastern sector has been replaced by Maj-Gen Jamil Mahmood.

The sudden change of command – and the choice of a Moslem general – follow Sri Lankan representations about the death of 23 Moslem villagers in Ottamawadi, north of Batticaloa in the Eastern province. Fifteen civilians were wounded, and several thousands took refuge in mosques and school buildings after Tamil Tigers ambushed a convoy of Indian troops killing nine soldiers, including a major, and injuring 12 others.

Rumours that Indian troops had sacked a mosque and killed 16 bus passengers led Eastern province Moslem MP's, all ruling party members, to demand an inquiry, which President Jayewardene ordered immediately. The mosque story, found to be a fabrication, showed how the Indian peace-keeping operation in the ethnically mixed (Tamil, Moslem and Sinhalese Buddhists) east is likely to be exceedingly difficult, and quite different from the "pacification" campaign in predominantly Tamil north.

If the ruling UNP's Moslem MP's are a pressure group that President Jayewardene and his Cabinet cannot afford to ignore, the Government's Moslem opponents have threatened to enlist the support of international Islamic organisations and embassies in Colombo, notably Pakistan. Before the July peace accord, Pakistan was the main source of support for Sri Lanka's counter-insurgency effort.

Reports reaching Colombo say Indian troops strength, now two divisions, may be increased to three and half or over 60,000 men, twice Sri Lanka's regular forces. Having broken the Tigers' military strength in the Jaffna Peninsula, the peacekeeping force plans to consolidate its position there, restoring civil administration and basic services, using the $493m pledged last week by Sri Lanka's donors.

UK may offer India extra £30m-£40m aid

BY JOHN ELLIOTT IN NEW DELHI

THE UK is considering offering India more than £30m-£40m in aid for water supply projects, partly linked to the current drought, in addition to a further £50m of aid which is likely to be spent on slum improvement and education schemes over the next four to five years.

This is in addition to offers of aid-supporting bids for large industrial projects such as a railway coach factory and locomotives, coal-fired power staions, airport modernisation schemes, and various telecommunications and electronics contracts.

These aid schemes are being examined by Mr Christopher Patten, UK Minister for Overseas Development who is on a ten-day visit to India. The country is the largest recipient of British aid, taking betwen £110m and £150m a year. About 20 per cent of the funds go on social and poverty programmes, and 60 per cent on contracts using British goods.

Last Friday Mr Patten met Mr Narayan Datt Tiwari, India's Finance Minister. He urged Mr Tiwari to speed up awards of industrial contracts so that India could make use of £75-£100m soft loans it allocated last year from the UK's aid-for-trade provision.

Competitive tenders for work which would use up more than half this aid have been outstanding for many months because very few government contracts have been awarded in India this year. Ministers and top civil servants have been unwilling to take decisions following corruption allegations on some defence contracts with Sweden and West Germany, and because there is an imprecise ban on civil servants negotiating with company agents. They have also not wanted to risk upsetting Mr Rajiv Gandhi, Prime Minister, fearing demotion or dismissal.

The Soviet MIG-29 fighter aircraft was formally introduced yesterday into the Indian Air Force at a ceremony in the military town of Poona near Bombay, John Elliott writes. Two air force squadrons have already been equipped with the warplane, which is the latest of several hundred MIG aircraft supplied to India by the Soviet Union on extremely soft financing terms since the early 1960s.

India has appealed to various countries to speed up aid projects linked with water supply in order to help cope with the drought. It has also said that it is giving priority to approval of foreign-aided rather than domestically funded development projects in 1988-89 in order to try to offset increases in public spending caused by the drought.

The UK is to grant £3m to support a Unicef drinking water supply programme and will provide about £17m for water drilling rigs, subject to a feasibility study. Further aid of more than £20m is being considered for drinking water projects in various states including Rajasthan and Gujarat which are the worst hit by the drought.

The most ambitious project being examined would involve involve Balfour Beatty and Biwater of the UK undertaking a major sewerage and water management project on Dal Lake in Srinigar, Kashmir. The Thames Water Authority, which has already carried out a £300,000 consultancy project on cleaning the River Ganges, India's sacred but heavily polluted river, is also offering to carry out a second stage.

The slum improvement schemes being finalised, involving nearly £30m aid, are in Hyderabad and Vishakhapatnam in the southern state of Andhra Pradesh where the UK is also negotiating a £20m extension of a schools and education programmes.

Coca-Cola plans to build FFr 200m bottling plant

BY PAUL BETTS IN PARIS

COCA-COLA is planning to invest FFr 200m (£19.6m) in a new French bottling plant in the new enterprise zone of Dunkirk in northern France.

The new Coca-Cola investment in France and two other foreign investments are expected to be announced today by Mr Jacques Chirac, the French Prime Minister during a two-day visit of the industrially depressed region of the Nord-Pas de Calais.

Apart from the Coca-Cola bottling facility, American Cyanamid is planning to invest about FFr 135m in a new agrochemicals plant in the area, while the Belgian chemicals group Beaulieu is also planning to invest in a facility to manufacture products for the car industry.

These three new investments are eventually expected to create about 500 new jobs in a region which has suffered from dire unemployment as a result of the closure of steel, coal and shipbuilding plants.

In an effort to generate new jobs, the government decided to turn the Dunkirk area into an enterprise zone offering fiscal incentives to attract new investors.

Mr Chirac will also visit the French construction site of the Channel tunnel at Sangatte, near Calais. The region is now hoping that the project will also create new opportunities to ease its unemployment problems.

Mr Chirac also announced a series of new foreign investments during a recent visit to Lorraine, another troubled old industrial steel region, involving Daewoo of South Korea and JVC of Japan.

The JVC investment, involving a hi-fi and compact disc plant, is also the latest of a growing trend of Japanese industrial investments in France.

Argentinian policy fails to halt inflation

By Tim Coone in Buenos Aires

ARGENTINA'S inflation rate is continuing its stubborn resistance to corrective measures adopted by the Government which includes a price and wage freeze introduced in October.

Official figures published over the weekend show retail prices up 10.3 per cent during November, while wholesale prices rose by 4.3 per cent, giving a 12-month retail price rise of 178 per cent and a wholesale price increase of 184 per cent.

Although the latest figures are a substantial improvement on the near-record figures of October, there is growing concern that the Government's policy is failing to resolve the underlying problems of Argentina's stagnation and its endemic inflation.

Within the ruling Radical Party, there are at least four alternative economic plans being discussed.

EC producers say China is dumping tungsten

BY KENNETH GOODING, MINING CORRESPONDENT

EUROPEAN COMMUNITY producers of upgraded tungsten products intend to charge China with dumping the metal and will demand retaliation unless that country raises prices within three months.

French, West German and British companies "have dossiers ready, and enough evidence" to lay charges, the Chinese have been told by Mr Jocelyn Waller of Charter Consolidated, which owns the EC's one remaining tungsten producer, Beralt in Portugal.

He is in China to meet tungsten marketing people accompanied by Mr Michael Maby, chairman of the Primary Tungsten Association which is to be reorganised to include tungsten converters next year.

In the past five years the price of tungsten concentrate has slumped from $140 to $40 a tonne and output in the non-Socialist countries has dropped from 20,000 tonnes three years ago to 6,000 as nearly every mine closed.

Mr Maurice Bown of Charter said at the weekend that China, the leading producer of tungsten, was now exporting upgraded products such as APT (ammonium paratungstate) and tungstic acid at prices which bore no relationship to the cost of convertion and this was threatening the viability of EC converters.

Earlier this year the Chinese signed an "orderly marketing" agreement with the US for upgraded tungsten products and Mr Bown said there were indications the Chinese would be willing to enter into a similar pact with the EC.

"But we are continuing to prepare our dumping case to protect the converters. We want the Chinese to improve their prices", said Mr Bown.

OECD warned on response to share crash

BY PHILIP STEPHENS, ECONOMICS CORRESPONDENT

THE umbrella organisation representing 60m trades unionists in western industrial nations is planning a sharp attack on the response of governments to the recent stock market crash.

Leaders of the Trade Union Advisory Committee to the Paris-based Organisation for Economic Co-operation and Development will tell OECD governments that its members cannot be expected to absorb the damaging impact of the crash.

A delegation headed by Mr Lane Kirkland of the US AFL-CIO will meet with the 24 ambassadors to the OECD next week to express its alarm over what the unions see as the complacent response of governments to the deteriorating economic outlook.

At a preparatory meeting last Friday, chaired by Mr Kirkland, the committee agreed that member unions would resist strongly any further pressure on workers to accept lower pay awards or harsher working conditions.

Instead, OECD governments should live up to their responsibilities to promote faster growth in output, investment and employment, it said.

Assembly of V2500 engines begins

Pratt & Whitney and Rolls-Royce, the main shareholders in the International Aero Engines consortium, have started to assemble production V2500 engines at manufacturing plants of both companies, reports Lynton McLain.

The engines are for the Airbus Industrie A320 flight test programme and will be delivered to the aircraft company at the end of March.

Mr N. Tomassetti, the president and chief executive officer of International Aero Engines said that testing leading to certification of the engine in June 1988 was at high intensity. Tests including ingestion of ice, hail and a four pound bird have been completed successfully.

Opec output down

Oil production by the Organisation of Petroleum Exporting Countries fell slightly in November, says the International Energy Agency in its monthly oil market report, published at the weekend.

The fall is attributed to reduced output from Saudi Arabia and Iran, which brought the Opec average daily production down to 18.8m barrels a day, compared with 19.2m b/d in October.

Nigerian policy

The article on Nigeria's foreign exchange policy published on November 26 contained a printing error. The forecast of the rate of the Naira to the dollar was based on the assumption that funds available for the foreign currency auction would increase from $100m to $145m a fortnight.

Zulus take tougher stance towards Pretoria and ANC

BY ANTHONY ROBINSON IN JOHANNESBURG

LEADERS of the Zulus, South Africa's largest black tribe, have significantly hardened their attitudes towards co-operation with Pretoria and their opposition to the African National Congress. This emerged from proceedings of the central committee of the 1.3m strong Inkatha movement over the weekend.

Buthlezi: wants evidence of a democratic alliance

In an angry response to the Government's recent rejection of the Indaba proposals for a multi-racial joint legislature for Natal province, Chief Gatsha Buthelezi, Chief Minister of Kwazulu and leader of Inkatha, threatened to pull out of the Indaba and the recently formed Natal Joint Executive Council.

Inkatha would also reconsider the terms for participation in the Government's proposed National Statutory Council, he added. Up to now it has insisted upon the prior release of jailed ANC and other black opposition leaders but is now demanding evidence that Pretoria is prepared to forge a democratic alliance across colour lines and scrap the last apartheid laws.

While attacking the Nationalist Government for backtracking on reform and concentrating on the white right-wing threat at next year's local elections instead of building a democratic alliance with blacks, Chief Buthelezi also attacked the ANC, the United Democratic Front and the Cosatu union federation. Referring to the bitter fighting in the townships around Pietermaritzburg, the central committee accused the UDF of trying to make the townships a "no-go area" for Inkatha.

More than 180 blacks have died in bitter fighting in the Pietermaritzburg townships over the last year. But a report-back rally organised by the UDF and Cosatu passed off peacefully yesterday.

● In a statement timed to coincide with this week's Reagan-Gorbachev summit Gen Jannie Geldenhuys, chief of the South African Defence Force, announced that South Africahad begun withdrawing its forces from southern Angola, Anthony Robinson reports.

All conscripts involved in the undeclared war against Soviet and Cuban-backed Angolan government army and Swapo guerrilla units would be home "before Christmas" he added. The withdrawal was expected as the onset of summer rains makes organised warfare impossible in bush conditions. In recent weeks rebel Unita forces defeated an Angolan offensive against Unita's forward base at Mavinga while South African long-range artillery has been deployed to destroy the radar, airfield and base facilities at the largely Cuban-manned Angolan forward base of Cuito Cuanavale.

SHIPPING REPORT

Continued high demand fails to lift Gulf rates

BY KEVIN BROWN, TRANSPORT CORRESPONDENT

RATES for very large crude carriers loading in the Middle East Gulf fell sharply last week, in spite of a continuing high level of demand.

Brokers said the fall in rates was largely a consequence of a surplus of available tonnage for forward cargoes, and was likely to be short lived.

E.A. Gibson Shipbrokers said rates fell to around Worldscale 42 for Eastern discharge. A 270,000 tons cargo to the West was fixed at Worldscale 45, but this was for loading in the northern Gulf.

Demand for medium-sized ships was said to be reasonable, and a 120,000 tons cargo for discharge in Singapore was reported to have been covered at Worldscale 70, while a 112,000 tons cargo for Australia was fixed at Worldscale 75.

Brokers said owners found it difficult to resist a fall in rates from West Africa, and a London major fixed a 105,000 tons cargo to the US Gulf at Worldscale 60 - up to five points below levels of the previous week.

Elsewhere, rates were said to be erratic in the Mediterranean, and relatively stable in the North Sea. Market conditions in the Caribbean were described as healthy, although it was private deals which maintained the level of rates.

WORLD ECONOMIC INDICATORS

TRADE STATISTICS

		Oct.'87	Sept.'87	Aug.'87	Oct.'86
UK (£bn)	exports	6.206	6.072	5.468	6.294
	imports	7.041	6.956	6.981	7.009
	balance	-0.835	-0.885	-1.514	-0.715
Japan (US$bn)	exports	20.097	19.882	17.177	18.861
	imports	12.328	11.034	10.971	10.044
	balance	+7.769	+8.848	+6.206	+8.817

		Sept.'87	Aug.'87	July'87	Sept.'86
USA($bn)	exports	20.986	20.222	21.008	17.531
	imports	35.062	35.905	37.483	32.270
	balance	-14.076	-15.683	-16.475	-14.739
W. Germany (DMbn)	exports	44.66	43.46	44.18	43.33
	imports	34.22	34.51	34.27	34.01
	balance	+10.44	+8.95	+9.91	+9.32
France (FFrbn)	imports	75.65	76.55	75.18	72.56
	exports	78.04	77.64	78.23	74.46
	balance	-2.39	-1.09	-3.05	-1.90

Norway budget cuts deeply into district funds

BY KAREN FOSSLI IN OSLO

NORWAY'S minority Labour government has put forward a package of tax measures which will tighten the country's national budget by NKr 2.5bn ($388.8m) to give a surplus of NKr 12bn, the largest since the 1970s.

In his final budget proposal to the Storting (Norwegian parliament) Finance Minister Mr Gunnar Berge struck a sensitive nerve with district politicians when he announced that cutbacks totalling NKr 1.1bn will be made to district budgets, in a measure which will provide one-half of the budget tightening.

The finance minister also cut back funds for road construction by NKr 100m and slapped a 10 oere per litre petrol tax on consumers. The budget's final draft proposal also includes a 1.2 per cent tax increase, to be paid by employers.

Mr Berge also demanded that wage increases should not exceed 5 per cent, a level which is not acceptable to trade union leaders. State construction plans have also been postponed, in a measure to save NKr 150m.

The original budget proposal presented in early October proposed a surplus of NKr 9.3bn, to be achieved through the most stringent tax measures seen in years.

A share turnover tax of 1 per cent was introduced by the original budget, to be split equally between buyers and sellers, to raise NKr 300m for state coffers.

A political row over interest rate levels, however, has brought sharp criticism from trade union leaders who have expressed a loss of confidence in the government, following its failure to fulfil promises to bring down interest rates.

In the final budget draft, income from oil has been increased to NKr 7.4bn from NKr 6.9bn presented in the original plan, to be achieved from anticipated higher oil production rates.

This figure, however, is based on an optimistic oil price of NKr 115 per barrel (best scenario), still below current oil prices which continue to hover at around NKr 113 per barrel.

In the budget, Norway's foreign trade deficit is estimated to be NKr 25bn in 1988.

Maggie Ford on presidential hopefuls who have to explain what they were doing on some key dates

Bloody past catches up with S Korean candidates

CERTAIN key dates on the South Korean calendar underpin the historical struggle to get rid of dictatorial, usually military-backed regimes there. For candidates in the presidential election next month, the answer to the question 'Where were you?' on April 19 1960, May 16 the following year and, more important, on December 12 1979 could be crucial to their chances of winning.

The importance of candidates' democratic credentials and military involvement has increased since a number of retired military men decided to explain their version of the events surrounding the 1979 military coup which ushered in the present government.

The public's verdict on the issue could be crucial to the chances of Mr Roh Tae Woo, the ruling party's candidate, who was directly involved in the event.

Only two of the four main candidates can answer the questions with confidence. In 1960, both Mr Kim Dae Jung and Mr Kim Young Sam were involved in, or were leading, the student demonstrations which led to the overthrow of Syngman Rhee, the country's oppressive first president.

The following year the fledgling democracy was stopped in mid-flight by the military coup staged by General Park Chung Hee. Both Kims were by now in parliament.

Mr Park followed in the footsteps of his predecessor, becoming increasingly repressive until he was assassinated in 1979.

Roh Tae Woo waves during a rally while supporters shield him from stones being thrown by opponents

This time democracy was glimpsed even more briefly before the military coup on December 12 led by incumbent President Chun Doo Hwan. The two Kims were allowed to campaign for president for a few months before martial law was declared. They were both arrested. Mr Kim Dae Jung was jailed on sedition charges and at one stage faced execution.

Mr Roh, by contrast, was a military instructor at a top university in 1960, had moved to intelligence work by 1961 and was commander of the 9th army division, posted on the North Korean border when he co-led the 1979 coup.

The facts about the 1979 events have only just been revealed to the South Korean public after years of silence by the government which still claims that the event was "an unfortunate accident" that took place in the context of the protection of national stability.

Revelations have centred on the story of Gen Chung Sung Hwa, the martial law commander at the time, who was arrested by the forces led by Generals Chun and Roh. His description of his severe treatment including torture in prison has astonished voters previously shocked by the torture of students and radicals. Gen Chung has joined the political party led by Mr Kim Young Sam.

Gen Chung was later joined in revealing the details by two other former generals who held senior posts in 1979. One general described a gun battle which started in his office after he had ordered a brigade of airborne troops to go to the aid of Gen Chung, besieged in the Seoul garrison by troops led by Gen Chun and Gen Roh.

Although the garrison commander was aware of Gen Chun's intentions, he had not mobilised troops to stop him because he was afraid that such a revolt might encourage a North Korean attack, the generals said. Mr Roh has been widely criticised for moving his troops from the border, possibly leaving it unprotected.

The two generals, who have impressed Koreans with their apparent political neutrality, said they were afraid that an attempt to quell the mutiny by generals Chun and Roh could have led to fighting in the streets and perhaps civil war.

The incident had shattered the command structure of the military, the generals said, claiming that Mr Roh would have difficulty commanding the army if he won the presidency because he had set a precedent for rebellion.

MILLIONS of South Koreans turned out at political rallies over the weekend as the presidential election campaign started its final phase with perhaps as many as 30 per cent of voters undecided, writes Maggie Ford in Seoul.

Mr Kim Young Sam, addressing a large rally in Seoul, appealed for an end to military rule and promised to form a government representing all democratic forces in the country if he wins the election. One of the minor presidential candidates, feminist Dr Hong Sook Ja, gave up and is to support Mr Kim.

Mr Kim Dae Jung, returning to his native city of Kwangju, rallied at least 500,000 enthusiastic supporters with his pledge to right the wrongs which occurred during the 1980 uprising against the present government, in which 200 people were killed. Mr Kim is expected to capitalise further on this key issue in the remaining days of the campaign.

Meanwhile, supporters at rallies held by Mr Roh Tae Woo, candidate for the ruling party, have increased, although he still faces minor violent incidents when he ventures into opposition territory. On Saturday in Pusan, home area of Mr Kim Young Sam, he apologised for the government's poor performance in pursuing democratic change and promised substantial improvement if elected.

Mr Kim Dae Jung's support is clearly strong in his home province and among workers and students, as shown by his large rally in Seoul a week ago in freezing weather. He appears to have picked up some support from the middle classes, but analysts believe that many educated people in the Seoul area, the largest in terms of voters, remain undecided.

Mr Kim Young Sam can rely on his home province and has apparently gained votes since he secured the support of a general who made detailed revelations about the military coup in which the present government took power.

The fourth candidate, Mr Kim Jong Pil is thought to have slipped badly behind.

ANC 'comes of age' in diplomatic world

Philip Smith in Arusha reports on the first international conference hosted by the S African organisation

THE AFRICAN National Congress, the South African resistance movement, has devised a programme of action which calls on the international community to render direct political, financial and material support to its cause.

The 75-year-old organisation, which held an historic international conference in Arusha, Tanzania, last week also called on governments and individuals to impose tighter mandatory sanctions on South African goods and services.

One western diplomat commented: "The conference was not a turning point, with no new policy, but it reiterated the ANC's moderate stance and proved that it is now grown up, responsible organisation."

Such comment will enhance the ANC's goal of becoming the single legitimate representative of the people of South Africa, as delegates saw it.

One delegate from Zimbabwe said: "From here they will look to convince the Organisation of African Unity and the UN that they are the mouthpiece of a free South Africa – and not the PAC." He was referring to the moribund Pan Africanist Congress that broke away from the ANC at the end of the 1950s and which still receives half all aid to the resistance movements through the OAU and the UN.

Almost 60 countries were represented by 500 delegates who included government officials, church and trade union leaders, and anti-apartheid and political campaigners.

ANC president Mr Oliver Tambo, in his opening address, said that white South Africa had never been more divided than today.

"As the struggle intensifies and the crisis of the apartheid system worsens, increasing numbers among our white compatriots begin to find their way towards the democratic positions of our movement. Through struggle we are building the most formidable democratic mnovement that our country has ever seen."

The ANC's director of information, Mr Thabo Mbeki, whose father Govan was released from Robben Island prison recently after being held for 23 years, admitted that there had been a "cooling off" of ANC activity within South Africa over the past 12 months.

According to delegates from South Africa the ANC's activities inside the country had been restricted by detentions and clampdowns under the state of emergency. It was also finding it difficulty to smuggle weapons into the country, they said.

Mr Mbeki said the next 12 months would be quite differenct following the conclusion of the Arusha summit. "It is time to act on all fronts," he said.

While delegates agreed an escalation in the "armed struggle" was necessary, a "think tank" set up during the conference concentrated on sanctions and boycotts.

The resulting programme of action, which summarises the ANC's campaigns over the years, will be used as a bible by the delegates on returning to their homes. The sanctions call covers International Monetary Fund loans, a ban on Kruggerands, a termination of trade and gold, precious metals, iron, steel and uranium, and an intensification of the coal boycott.

The programme also calls on the International Atomic Energy Agency to expel South Africa in 1988 and calls on the UN Security Council to make an oil embargo mandatory.

The programme details an international system to monitor sanction breaches, and action to be taken when breaches occur.

The conference, which was sold to the large gathering of foreign press on the basis of a view of a post-apartheid South Africa, offered no details of this, except that the economy would be mixed and racism banned.

However, delegates left the conference satisfied as did the ANC, despite organisational difficulties. The ANC said a similar conference would not be held for a number of years.

Contracts & Tenders

Company Notices

Rentals

THE ACCOUNTING DEBATE – LETTERS TO THE EDITOR

Guidelines are expected soon

From Professor John Arnold, Director of Research, The Institute of Chartered Accountants in England and Wales

Sir, Your report of Professor Mayer's lecture (November 24) was headed "A new theory by economists." Your subsequent leader, "Common sense and accountants" (November 26), asserted that the basic principles underlying the measurement of profit lack a convincing theoretical rationale, and concluded that the approach advocated by Professor Mayer and his colleagues would be a substantial improvement on historical cost accounting.

As neither the headline nor the assertion were entirely correct your readers might decide, wrongly in my view, that your conclusion was also misplaced.

It is important to recognise that, far from being new, the theory proposed by Professor Mayer and his colleagues was well documented in the academic accounting literature more than 20 years ago. The reason that it is important to recognise this is not to repair the bruised egos of academic accountants (who are accustomed to their theories being ignored for many years), but rather to show that the failure to make practical progress in the development of widely accepted and useful measures of profit and value, is not because of the absence of convincing theories. Indeed, the problem may be that there are too many.

The Research Board of the Institute of Chartered Accountants in England and Wales is well aware of the competing theories of valuation and profit measurement. Earlier this year the Research Board commissioned Professor David Solomons, an eminent academic accountant with wide experience in both the UK and the US, to undertake a project to develop guidelines for financial reporting. His report, which is due to be completed early in the New Year, will provide a framework which should be useful to accounting standard setters who are endeavouring to develop detailed rules.

The fate of SSAP 16 may, however, provide a salutary warning. This was the accounting standard, issued by the Accounting Standards Committee in 1980, which required companies to produce a supplementary current cost profit and loss account and balance sheet. After a promising start, the level of compliance with the requirements of SSAP 16 by listed companies became so low that the mandatory status of the standard was suspended in June 1985.

As the approach suggested by Professor Mayer and his colleagues is on very much the same lines as SSAP 16, it may run the risk of sharing the same fate.

John Arnold,
PO Box 433
Chartered Accountants' Hall,
Moorgate Place, EC2

Efforts to revise were thwarted

From Mr W.J.H. Everitt:

Sir, One of the minor pleasures of the passing years is to observe the re-cycling of ideas. Your editorial, "Common sense and accountants" (November 26), provides a case in point.

The set of proposals for revising the basis of preparing companies' financial statements, as described, is based upon economic theory so sensible and logical that it has been widely acclaimed as a revelation at least once in the past, and well received in your pages. The occasion was the publication of the Sandilands Report in 1975, which saw the birth of current cost accounting in this country, up to and including SSAP 16.

The adjustment proposed to allow for the effect of general inflation upon the figures is essentially that proposed by the English Institute's Technical Directorate in their immediate response to Sandilands in 1975. And you only have to look at the history of price-level adjusted accounting since that time to know that no idea is so good that well-intentioned men cannot destroy it. You conclude: "It is perhaps not surprising that the accountancy profession remains under little pressure to revise its illogical and outdated principles." It's worse than that.

The accountancy profession, as we have seen, is under very great pressure not to revise its illogical and outdated principles, and its attempts to do so have been consistently thwarted by an alliance of interests that much prefer the status quo. SSAP 16 ended up as an unsatisfactory compromise because of attempts to appease those interests, and made an easy target for the purists to shoot at. However, it is worth pointing out that compliance with SSAP 16 was initially high. What eventually defeated SSAP 16 and any attempts to improve it was the fall in the rate of inflation - you cannot persuade people to make sacrifices in order to solve a problem if they can no longer see the problem.

I suspect that it will take a further serious bout of either inflation or deflation before we can make much useful progress.

W.J.H. Everitt,
14 Blessington Close,
Lewisham, SE13

More self interest than ignorance

From Mr Donald Midgley.

Sir, It is painful to have to endorse the conclusions in your recent editorial (November 26).

Charitably, you did not go on to spell out that self interest, rather than ignorance, has been at the heart of much of the opposition, particularly because:

(a) acquisition accounting practices greatly favour ownership change as an alternative to internal investment and re-organisation, and these distortions suit the City firms with a vested interest in stimulating merger and acquisition activity;

(b) the practice of not charging extraordinary costs against earnings encourages business closures rather than recovery programmes, and appeals therefore to ambitious executives seeking City praise for short-term improvement;

(c) non-disclosure of off-balance sheet financing techniques is a key selling point for our much acclaimed financial services industry; and

(d) historical cost conventions, by enhancing reported profits, are very attractive to unsuccessful managements and investment houses.

These basically simple issues should be brought outside the confines of academic professional debate into the wider political and social arena where they rightfully belong. Much will depend on sustained future pressure from informed but impartial sources: the business schools, the Bank of England and the financial press.

Donald E. Midgley,
Pellinore,
Sleepers Hill,
Winchester, Hampshire

'Current cost' system failed

From Mr J.W. Ward.

Sir, Certainly, company accounts have their shortcomings. The accountancy profession has on several occasions conducted studies and surveys of users of accounts in order to make them more meaningful. Accounts are necessarily drawn up to represent a snapshot of a company's financial position, and trading performance, over a somewhat arbitrary period of one year. But to lay the blame for the difficulties regarding on-balance sheet items and historical cost accounts purely at the accountants' door is unjust.

In my view, the present fashion for non-balance sheet items results from the energies of highly-motivated and imaginative lawyers employed by banks to generate new business. The unfortunate clash between the legal and accounting professions over this issue has now attracted the attention of the DTI - which seems to be siding with the accountants, by moving to outlaw the use of the controlled non-subsidiaries so dear to the lawyers.

A system of current cost accounting was developed and introduced by the accountants, but failed, as much because of a lack of acceptance by both users and Government, as because of the concept's own shortcomings. If you and Professor Mayer are so against historical accounts, where were you when the debate and trial introduction of compulsory current cost accounts for listed companies were taking place?

J.W. Ward,
"Courtside",
28 Dartnell Avenue,
West Byfleet, Surrey

'Historical cost' concept defended

From Mr Richard Clark.

Sir, While agreeing that company reports are far from perfect, a number of points in "Common Sense and Accountants" (November 26) deserve further discussion, if only because historical cost accounting is an easily understood concept for all users of accounts, and therefore warrants a defence despite its shortcomings.

A further advantage is that it provides a valuation method which is readily comparable between companies and readily usable by companies; Professor Mayer's "value to the owner" approach may not be. The use, advocated by him, of valuation methods which are not only dependent on the circumstances of a company, but also involve the use of inflation indices, implies that a subjective set of ground rules must be devised to cover which set of circumstances should lead to the use of which valuation method; and that an arbitrary judgement must somewhere be made about the relative importance of specific price increases in establishing appropriate sector indices.

Thus the end result may well be that " a serious assessment of economic performance" is established. However, there will be no common yardstick against which this achievement can be measured: different companies' reports will be based either on fundamentally different valuation bases, or on different sector indices - one of which may be more truly (and fairly?) representative than another.

Your assertion that regulators should take a tougher line with off balance sheet items makes good sense. There is unfortunately some merit in the view that no matter how many forms of off balance sheet financing are outlawed, those of a secretive nature will soon arrive at other technically permissable schemes.

On the "value to the owner" approach Professor Mayer should consider the added cost to a company, and therefore indirectly to its owners, of introducing a more complex valuation and reporting system. Of course, coming from an auditor whose fee would likely increase as a result, this may not sound like common sense.

Richard Clark,
80 Bremgartnerstrasse,
8003 Zurich,
Switzerland

Pursuit of the Holy Grail

From Mr R.O. Jenkins

Sir, Professor Mayer and his colleagues continue to pursue the Holy Grail of perfect accounting conventions but, judging from your report (November 24), they are no closer to success than any of their predecessors.

Financial reports give rise to confusion and controversy because, in order to present a picture of a business, it is necessary to combine the simple historic recording of transaction with human judgement, both on the exact meaning and appropriate presentation of those transactions and on some aspects of the future of the business.

It is inevitable and natural that judgement will tend to be used to show a business in a more rather than less favourable light. Controversy arises when judgement is used in this way to an unacceptable degree, and what is unacceptable is, of course, also judgemental.

However, it is fantasy to suggest that these problems could be avoided by the introduction of more rigorous economic theory into accounting conventions.

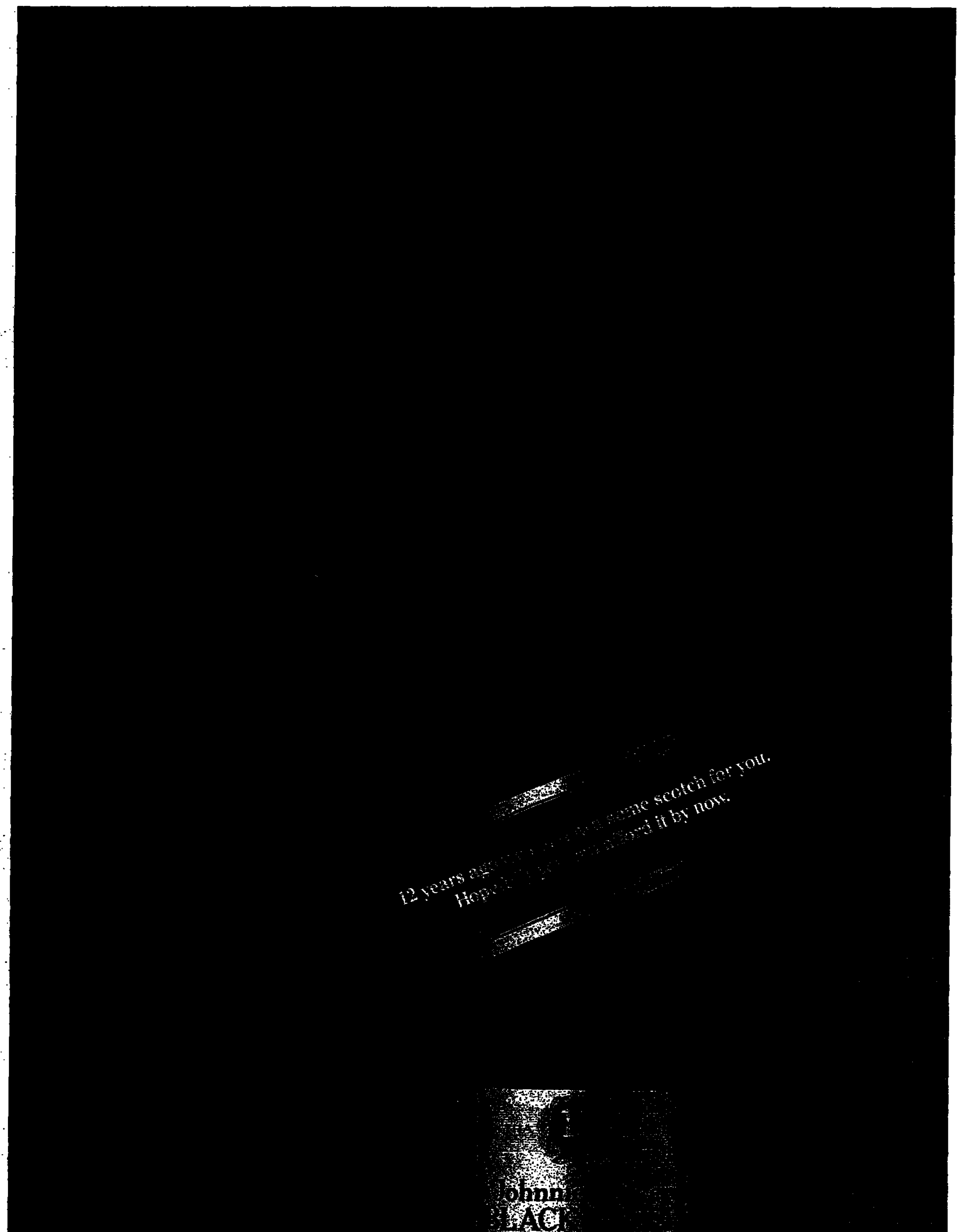
The concepts of replacement cost, disposal value, present value and real gain would introduce vast areas of judgement, and therefore controversy, into accounting conventions, beside which simple matters - such as the level of the stock obsolescence reserve - would pale into complete insignificance. Some of these difficulties were well explored in the last unsuccessful attempt to introduce CCA.

Interestingly, it is not clear that the new economic theory itself is a model of consistency: Professor Mayer's view that goodwill should be held on the balance sheet, and depreciated, seems at variance with the valuation of assets at replacement, disposal or present value.

The fact is that so long as markets focus on one or two key numbers in financial reports - PBT, eps - there will be argument as to how those numbers are arrived at. Well defined accounting standards can reduce but will never eliminate these arguments. What really matters is that standards of *disclosure* are adequate.

R.O. Jenkins,
3 Oaks Park,
Canterbury, Kent

Other letters, page 19



UK NEWS

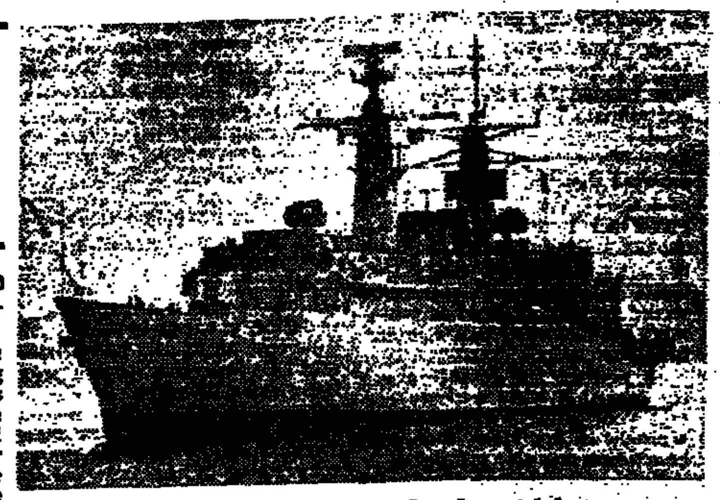
Lynton McLain looks at Swan Hunter's course for profits

Shipyard diversifies to stay afloat

Trafalgar House's decision to mothball Scott Lithgow, bought from British Shipbuilders in 1984, has taken excess capacity out of UK shipbuilding, but the remaining yards are still chasing too few orders.

Swan Hunter was also privatised, nearly two years ago now.

It has only two ships on the stocks and a third about to be launched. The result is that the company is having to diversify to survive.



HMS Coventry: completed sea trials

SWAN HUNTER *Shipbuilders, in* private hands again after nine years under the flag of British Shipbuilders, no longer builds ships so big they block daylight from workers' cottages.

Instead, Tyneside's only remaining shipbuilder and possibly biggest all-purpose yard in the UK has been forced by declining merchant-ship orders *and limited naval markets to* evolve new strategies to generate profits.

The yard has built more than 2,700 ships, including 400 warships, over the past 125 years. However, future profits will not come necessarily from building ships, Mr Peter Vaughan, joint managing director, says, although the company is about *to announce its first export suc*cess since privatisation, a ship-repair contract for an African country.

Swan Hunter Shipbuilders was privatised in January last year in a management *buyout*, in line with government policy to divest British Shipbuilders of its warship yards. The company was bought for £5.35m by Swan *Hunter*, a limited company formed for that purpose.

The yard reported a £4.94m trading loss on £115.33m turnover for the 18 months to September 30 last year. This compared with the trading loss of £11.9m on turnover of £135.67m in the year to end-March 1985, when the yard was still state-owned.

The company has improved productivity: the time to build a frigate has been cut from 261 weeks in 1979 to an expected 165 weeks for HMS Marlborough, its first Type 23 frigate, started this autumn.

However, in spite of this improvement the orders have long since declined since the days when the yard built the *250,000-tonne Esso Northumbria* in the 1960s: before launch the ship's bow bulged between two rows of cottages at the end of the Wallsend slipway and the company had to pay the electricity bills for lighting the houses in daytime.

Swan Hunter is unlikely to face a similar overhead again: since launch of Esso Northum*bria*, when more than *15,000* people worked at the yard, the *houses have gone, along* with 80 per cent of the company's workforce.

Swan Hunter wants to stay in merchant and naval shipbuilding work, yet the Government says warship-builders are ineligible for state subsidies, the so-called intervention funds, available for purely merchant shipyards, the rump of which, mainly on the *Clyde and Wear, are still in Brit*ish Shipbuilders.

Naval work is equally hard to obtain. It is insufficient to fill shipyards across the globe, with few exceptions, in spite of record spending on defence equipment. The Ministry of Defence acknowledges huge overcapacity in UK warshipbuilding.

Warships can be built *not only by Swan Hunter*, but by the other private-sector yards of Yarrow, Vosper *Thornycroft*, Cammell Laird and the now mothballed Scott Lithgow, and by *state-owned Harland and Wolff.*

Kleinwort Grieveson Securities, in a report published in the autumn, forecast that such was overcapacity in warship-building in the UK that "a decade hence could see only one yard building surface ships and one other building submarines."

This is the background against which Swan Hunter has to chart its course as a private company. The last of four ships the yard has built as replacements for vessels sunk in the Falklands conflict, the Type 22 frigate HMS Coventry, has finished its sea-trials and will be handed to the Royal Navy next summer.

HMS Coventry was launched in April last year by the management of the newly-privatised yard, in defiance of a striking workforce.

Mr Alex Marsh, chief executive, says the management would do the same again but the need to "survive and succeed in the private sector has been instilled into everyone in the company."

He says the knowledge that "there is no process of bailing out available concentrates the mind wonderfully on the achievement of profit and performance."

The yard is building just two warships, *HMS Chatham*, to be launched in January, and HMS Marlborough, and one commercial ship, a cable-repair vessel for Cable and Wireless.

The order-book, with steel-work for just two ships, *is* enough to last two years at best, with all the vessels due for delivery at the end of 1989. The yard *hopes to* be awarded the contract *for the* second auxiliary oiler-replenishment vessel, the AOR2, *before Christmas.*

The pattern emerging from the ordering by the Ministry of Defence *suggests* that just enough naval vessels will be ordered to meet the Royal Navy's requirements and just enough to stop yards in unemployment blackspots from collapsing.

For Swan Hunter, AOR2 will probably be awarded just before HMS Chatham becomes the last ship to be launched from the Neptune shipyard, upriver from the main Wallsend slipway, where all future ships will be built. Swan Hunter will use the Neptune yard for fabrication work only.

The strategy for a modus vivendi, in the face of an almost non-existent merchant-ship market and a stuttering warship market, is taking shape: the company wants to sell its expertise as project managers, to take charge of overseas ship contracts and to sell design skills, in the broad area of "maritime defence."

The management structure *was changed in September* to provide a framework for this attempt at diversification and exploitation of existing skills in new ways. There are now two managing directors, Mr Peter Vaughan, in charge of commercial work and diversification, and Dr Ken Chapman, in charge of marketing, development and sales.

The company has teamed with Ferranti, the UK defence electronics company, for joint studies on the so-called landing-platform dock vessels, which could replace HMS Fearless and *HMS Intrepid, the Royal Navy's* two ageing assault-ships. Ferranti brings its skills in weapon systems and Swan Hunter its skills in building ships.

Swan Hunter would almost certainly want *to* present its skills *in maritime* defence to potential overseas customers in partnership with specialist companies such as Ferranti.

This is one way to achieve future profits without necessarily building ships. Without the ships, though, Swan Hunter recognises that it will lose the *skills on which to* base its diver*sification* work.

In trying to make money from activities other than direct shipbuilding, Swan Hunter is *attempting to* assist the Indian Government to build its own aircraft-carriers, through help on the pre-planning stage.

Mr Marsh said: "We have skills in managing the complexity of aircraft-carrier construction – Swans built HMS Ark Royal and HMS Illustrious – and this is something we can sell to India."

The shipyard is also trying to win exports, *in competition with* Vosper Thornycroft, for 76-metre corvettes.

The company said the corvette's export potential was vast.

*Before Christmas 260 employ*ees at Swan Hunter will have lost their jobs in a redundancy programme announced this year and leaving Swans with 3,300 employees. This, Mr Marsh says, is "the size of overseas yards and about the level of efficiency for the market we are in."

Changes since privatisation, including job-losses and flexible *working, had cut overheads by* 25 per cent.

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UK NEWS

British Shoe Corp reviews production

By Alice Rawsthorn

BRITISH SHOE Corporation, the Sears Group subsidiary which is the UK's largest retailer and one of the largest manufacturers of footwear in Britain, is reviewing the future of its manufacturing interests.

The company has commissioned a review of its footwear production plants from a firm of external consultants. Mr Christopher Marsland, managing director, said the review would consider "every option" for the future of the business.

The review should be completed early in the New Year. The company will then decide how its manufacturing division should be restructured.

BSC has dominated the British shoe industry since Sir Charles Clore, the architect of the Sears empire, bought a string of footwear businesses in the 1950s.

The manufacturing division is composed of production plants in Northampton, Leicester, Norwich and Kilmarnock. It employs 4000 , almost 10 per cent of the footwear industry workforce. BSC vies with the FII Group as the second largest shoe manufacturer in the country, after C. and J. Clark.

Almost all the output from the footwear factories is sold through its own shops. The retail division - which embraces chains such as Dolcis, Saxone, Manfield and Curtess - sells almost 25 per cent of all shoes sold in Britain, according to Verdict Research.

In recent months BSC has restructured its retail interests in line with a new strategy initiated by Mr Marsland, who became managing director earlier this year.

Hitherto the management of the retail businesses was centralised. The company has since divided the chains into four groups, each aimed at different parts of the marketplace. It is now engaged in a refurbishment programme and in rationalising the number of shops.

The review of manufacturing has been commissioned to see if the existing production plants are suited to supply the restructured retailing division. In the past few years the British shoe industry has staged a recovery after decades of decline. But in recent months that recovery has faltered in the face of a surge of cheap imported footwear from the Far East.

Industry faces hard times, Opposite Page

Ministers to study sale of remaining stake in BT

BY MICHAEL CASSELL, POLITICAL CORRESPONDENT

THE SALE of the Government's remaining shareholding in British Telecom is to be considered by ministers, who are anxious to maintain their £5bn-a-year privatisation programme.

Discussion of the sale of the BT stake follows last week's decision to go ahead with the sale of the British Steel Corporation and uncertainties over the extent to which any sizable repurchase of British Petroleum shares will hit annual privatisation targets.

The Treasury is committed to raising £5bn net a year from asset sales in each of the next three financial years. Although no major disposals are required to meet next year's target, additional revenue has still to be found for the following two years.

No early decision is necessary, but inter-departmental discussions aimed at establishing BT's place in the rolling programme of privatisation are likely to begin shortly.

In November 1984 the government sold 50.2 per cent of BT, raising £3.7bn and attracting over 2m shareholders. Its intention has always been to dispose of its remaining shareholding although, as in the case of Jaguar, it would be expected to retain a strategic "golden share" which could be used to prevent the business falling into foreign ownership.

Given the 1984 sale, ministers expect the sale of the government's remaining stake to be technically straightforward, although the timing will be dictated not only by the need to maintain a flow of revenue from asset sales but by the ministerial view of BT's much-criticised performance.

A departmental review of BT's competitive position within the telecommunications industry is planned.

Ministers accept that the flotation of the remainder of BT cannot be contemplated until the organisation has been seen to improve the standard of services which the government is attempting to stimulate by opening up areas of BT's business to outside competition.

The government is counting on £4.6bn during 1988-9 from privatisation proceeds involving British Gas, the BAA – formerly the British Airports Authority – and British Petroleum. This suggests that the Treasury would overshoot its annual target if total revenue from the British Steel sale – likely in early 1989 – fell within the same financial year. In 1989-90, a further £2.2bn is expected from the phased sale of BP shares.

The Treasury's calculations for the next two years will, however, be affected by the extent to which the Bank of England has to buy back BP shares under the "safety net" scheme announced by Mr Nigel Lawson, the Chancellor of the Exchequer.

The government has stated its intention to sell both the water and electricity supply industries, with legislation scheduled for the 1988-89 parliamentary session.

The sale programme suggests that additional receipts will be required in both 1989-90 and 1990-91, even discounting the uncertainty over BP, raising the prospect that a second-phase BT sale could take place within the next 18 months.

Electronics industry 'facing severe recruitment problems'

BY PHILIP BASSETT, LABOUR EDITOR

ELECTRONICS manufacturers are now facing severe recruitment difficulties, and more than 25 per cent of engineering companies overall expect shortages of skilled labour to limit their output in the short term.

A report by the Engineering Industry Training Board also says that demand for graduates in the industry is increasing sharply - a finding which differs markedly from a government report last week on trained engineers, which was sharply attacked by employers and engineering organisations.

The EITB says in its Economic Monitor that though engineering output has been performing well – in the first half of this year it was 4.5 per cent up on the same period in 1986 – employment in the industry is continuing to decline, though at a slower rate than recently.

Even so, almost a third of all the redundancies in the economy in the first half of the year took place in engineering.

The main falls in employment were in machinery and motor vehicles, while employment increased in the electronics sector. Occupationally, most of the decline can be attributed to falls in the number of operators (34 per cent of the total decline), craftsmen (31 per cent), clerical (22 per cent) and technician (13 per cent) staff.

But the number of professional engineers, scientists and technologists has continued to rise, with total employment in the industry of this group now up 56 per cent since 1978.

The EITB, analysing Confederation of British Industry data, says that 26 per cent of companies now say they are facing output-limiting skill shortages. Craft skill shortages are still being felt in some more prosperous areas of the UK, primarily because of the early-1980s collapse of apprentice training, but professional staff provide the industry's most serious overall recruitment difficulties.

Sectorally, more than half the companies in electrical and instrument engineering are facing short-term output-limiting skill shortages, says the EITB. The proportion of companies in electronics reporting skilled labour shortages is now beginning to approach its previous peak level of 1973-74.

Companies facing the greatest recruitment difficulties are manufacturers of electronic industrial goods and telecommunications equipment.

The board says that the shortage of graduates is an "unwelcome constraint" not only on output, but also on research and development, and the introduction of new processes and products.

Economic Monitor, No 26 Nov 1987. EITB, 54 Clarendon Road, Watford, Herts WD1 1LB. By subscription.

GEC announces railways deal with Italian group

BY TERRY DODSWORTH

THE General Electric Company's electrified railway subsidiary aims to break into the European market through a new collaborative research and manufacturing agreement with Ansaldo, the Italian group.

The deal is designed to cut research and manufacturing costs at a time when the industry is shifting rapidly from electro-mechanical to electronics-based technology. Both companies are also anxious to prepare the way for the wider sales opportunities which should become available after the creation of the internal European market in 1992.

GEC Transportation Projects, the GEC subsidiary which has recently completed the Docklands light railway in London, specialises in the design and construction of railway systems. Ansaldo Transporti, owned by the nationalised IRI holding group, has a similar position in Italy.

The two companies have benefited over the last few years from the boom in demand for urban mass-transport systems and the rapid growth of light railway projects. They are now, however, facing the prospect of increased competition in their domestic markets from the planned removal of trade barriers in the European Community.

Mr Brian McCann, managing director of GEC Transportation Projects, says GEC is particularly interested in projects now being planned in Italy. It also hopes to gain from Ansaldo's connections with several Latin American countries.

The agreement will give Ansaldo access to the GEC's technology in power semiconductors, an area in which the UK company claims to have a world lead.

Mr McCann says the companies will have total access to each other's technology on agreed contracts. These projects will include light rail transport, electronically controlled locomotives, trains for commuter services, heavy and light underground systems, and fast passenger trains.

GEC Transportation Projects, which has sales of £120m a year, exports about 80 per cent of its products and employs around 2,000 people. Ansaldo is roughly the same size, but has not been as active on export markets.

The other large European companies in the same business include Alsthom of France, which is by far the largest, Siemens of West Germany and the new group formed by the merger of Brown Boveri of Switzerland and Asea of Sweden.

Venture capital goes north

BY IAN HAMILTON FAZEY, NORTHERN CORRESPONDENT

HAMBROS Advanced Technology Trust (Hatt) has become the first London-based, specialised venture capital fund to establish a regional branch in the north of England. It has set up in Halifax and has quickly found its first two new companies to back. Other deals are expected soon.

The move may prove significant in helping to break up the concentration of British venture capital in London and the south-east. A network of regional funds has been developing steadily to compensate, but London funds have tended to be rooted in the capital. If Hatt succeeds, others may follow.

The network includes Northern Investors in Newcastle upon Tyne, Yorkshire Enterprise, Greater Manchester Economic Development Corporation and Lancashire Enterprises.

Lazard's Capital Development Group is also active, but operates through regional unit trusts, putting much of its money into quoted regional companies to earn income to run each trust and reduce risk on unquoted investments.

Hatt is purely a risk-taker, gambling on picking high-technology ventures that will grow quickly and ensure high profits.

This has worked so far: since starting with £8m from Hambros in 1982, the trust's value has grown to £33m. It is managed by Mr Harry Fitzgibbons, an American, and Mr Jamie Weir, a Scot, and has made 40 investments, all in the south. Not all have been winners: a 20 per cent failure rate has resulted in £1.3m of write-offs.

Another reason for the move north is that Hatt never syndicates deals to spread risks among groups of funds. This means that local knowledge is necessary to find the best prospects. A base in Halifax, at the centre of the thriving trans-Pennine region of Greater Manchester and West Yorkshire, shows it means business.

Hatt also expects referrals of high-technology ventures from regional funds that are more comfortable with the general type of project. Northern Investors has already shown interest in this.

The first Hatt investment is £120,000 for a 30 per cent stake in MIE, a Leeds biomechanics company which makes orthopaedic products.

Men and Matters, Page 18.

Success of service without a smile

By Maggie Urry

THE replacement of the tea lady by soulless vending machines continues apace in spite of a widespread belief that the latter provides an inferior product.

A report by Euromonitor suggests that industrial penetration of vending machines for hot drinks is nearing saturation point with 80 per cent of businesses operating at least one machine.

The machines are obviously more profitable than keeping a tea lady. The cost of the ingredients in a cup of tea – which might sell for 14p – is as low as 1p. "Gross margins can be very attractive," says the report. Even in more upmarket drinks – such as ground coffee or leaf tea – the raw materials cost only 5p or 6p a cup.

The total "vend spend" on hot drinks last year was £240m, with 3.95bn cups sold, though whether this takes account of drinks poured when no plastic cup has appeared under the spout is not clear.

The turnover from all types of vending machines reached more than £1bn in 1986, which compares with total retail sales of £95bn. There are an estimated 520,000 machines in the UK of which one third are drinks dispensers

While the study forecasts a fall in sales of cigarettes through vending machines, the future looks bright for sales of food and drink, condoms, sports goods, toiletries, socks and even newspapers.

Vending in the UK 1987. Euromonitor, 87-88 Turnmill Street, London EC1M 5QU £325.

The footwear industry faces hard times, writes Alice Rawsthorn

Shoemakers start to feel the pinch

EVER SINCE the 1950s, when Sir Charles Clore, founding father of the Sears Group, went on a spending spree among Britain's shoe manufacturers and retailers, the British Shoe Corporation has towered over the footwear industry.

The news that corporation is reviewing the future of its production plants is ominous; after a brief respite from decades of decline, the footwear industry is again clouded by uncertainty.

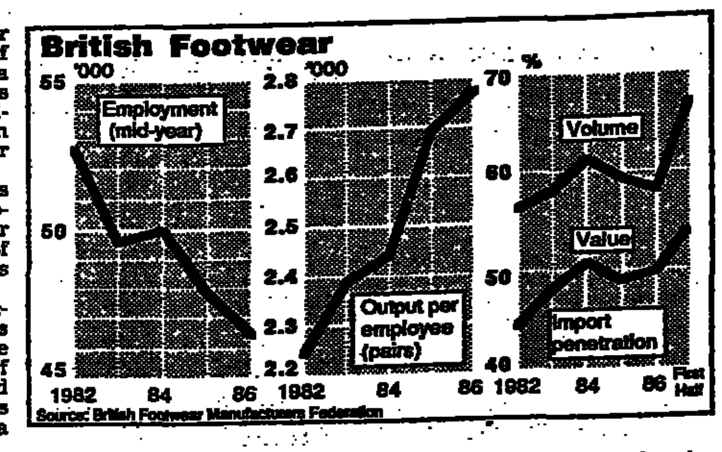
Like so many other manufacturing sectors, the industry was ravaged by the recession of the early 1980s. But the influx of imports peaked in 1984 and Britain's shoe manufacturers then settled down to enjoy a warmer trading climate.

In recent months, however, imports have soared to record levels. The reasons are threefold:

- The decline of the US dollar and of Far Eastern currencies linked to it has enabled low-cost producers in South East Asia to become even more competitive.
- The climate of protectionism in the US has prompted these Far Eastern manufacturers to "divert" exports to Europe.
- New centres of footwear production are emerging in China, Indonesia and Thailand. All three countries have seen exports to Britain soar so far this year.

The problems posed by rising imports have been compounded by changes in shoe design. In recent years the prevailing trends – court shoes for women and brogues for men – have favoured the British industry, given that these are the traditional styles at which it excels.

Brogues remain fashionable, but more complex women's shoe styles have meant more labour-intensive production. It has been the manufacturers rather than the retailers which have borne the extra cost.



Nevertheless the British industry has, so far, managed to contain the import problem.

One mitigating factor has been that footwear from the Far East consists mostly of slippers and sports shoes - a market British manufacturers left years ago to specialise in leather.

The availability of cheap canvas or plastic footwear may, however, have depressed demand for more expensive leather shoes.

The brunt of this decline has been borne by European exporters, especially the Italians who so damaged the British industry in the 1970s. The competitive value of sterling against the Italian lira helped reduce imports from Italy by 22 per cent in the first three quarters of this year.

As a result, output from British footwear factories remained buoyant until the autumn, but order books faltered in the summer.

Manufacturers of men's and children's shoes are faring relatively well but some women's shoe producers have already started to suffer.

Most vulnerable are undoubtedly the small businesses which make up the bulk of the industry. There are now 750 shoe producers in Britain, according to the British Footwear Manufacturers' Federation, only 154 of which employ more than 50 people.

The industry is thus polarised between the huge concerns – such as C. and J. Clark, the British Shoe Corporation and the FII Group, employing thousands of people – and the tiny enterprises in the back streets of the inner cities with a handful of workers churning out cheap shoes.

In the past few years, the bigger companies have invested in automated production systems. Hitherto, shoemaking had lagged behind other manufacturing sectors in the pace of technological change. Since the start of the 1980s the pace has accelerated.

The use of automated assembly lines and computerised sewing machines has reduced the labour-intensity of the production process and has enabled British manufacturers to become more competitive.

Output per employee rose by 24 per cent throughout the industry from 1982 to 1986. For the larger companies the increase has been higher still.

These businesses will be able to use the benefits of new technology to counter the effect of adverse exchange rates and to provide the "quick response" demanded by footwear retailers as the installation of electronic point-of-sale systems accelerates.

But new technology is expensive – prohibitively so for the smaller manufacturers. These small businesses will have little shelter from a surge in imports.

Every area of the industry – large and small – is concerned about the impact of sluggish retail sales on trading in the New Year.

Shoe shops, like the rest of the High Street, have experienced lacklustre sales in the approach to Christmas. The two largest retailers – British Shoe Corporation and Clark – say sales have slipped below expectations.

Clark reports resilient sales of men's and children's shoes, but says women's footwear has performed poorly since mid-October.

The industry is worried that sluggish sales will create an over-stocking problem. This augurs ill in the light of current concern about a future slump in consumer spending.

Given the level of investment in new technology and the improvements in productivity, the larger shoe manufacturers at least are in relatively good shape to withstand a downturn.

No one in the industry expects a return to the dark days of the early 1980s but nor can they view with equanimity the cuts and closures now ravaging the Italian industry.

Failure to join EMS queried

BY ALAN PIKE

THE UK might have won concessions from its European Community partners had it entered the European Monetary System from a position of strength after the general election, Mr John Young, economic adviser at Lloyds Bank, argues today.

He suggests that joining the EMS in these circumstances might have produced concessions in the internal market and in agricultural spending. Market expectations would have been anchored for up to a year of fixed rates, and Britain's arguments for more expansionary European fiscal policy would be more likely to be heard if it were fully committed to the EMS.

Mr Young acknowledges the Prime Minister's strong conviction that an independent policy is feasible and desirable and that joining the EMS is out of the question in the short term, but he believes UK membership might eventually come about as a defensive measure.

"It is not inconceivable that at some stage during the life of this parliament the Chancellor will announce EMS membership as an alternative to a 2 per cent rise in base rates."

Mrs Thatcher's main reason for not joining the EMS, says Mr Young, is that tying sterling to the West German D-mark would result in too deflationary a stance. But on Lloyds Bank forecasts, the UK and West German growth rates were likely to converge next year.

Shearson Lehman Securities, in its weekly UK economic monitor, says the omens for inflation in 1988 look increasingly poor. It says increased union militancy in the public sector is a standard feature of the late phase of a boom, citing the recently averted postal dispute and current demands by nurses as evidence.

"Although it would be premature and misleading to talk of a public sector pay explosion comparable with those of 1973-74 and 1978-79, there is no doubt that earnings in the public sector will soon be rising at rather more than the 7.5 per cent to 8 per cent annual rate which has come to be regarded as a norm in recent years."

In these circumstances the economy did not need a boost from lower interest rates. The latest base rate cut may have been sanctioned as the UK's contribution to international efforts to stabilise the dollar but would inevitably have an impact on the domestic economy.

Warburg Securities' weekly economic briefing says the London financial markets are split, with the equity market worried about recession and the gilts market about inflation.

Press body criticises The Sun

By Raymond Snoddy

THE Press Council, in a warning from Sir Zelman Cohen, its chairman, today attacked The Sun newspaper for what it called striking at the heart of the council's role.

Sir Zelman says in the council's annual report for last year: "If individual newspapers treat its rulings cynically, if they disregard or abuse the council, they put at risk the continuance of a system of voluntary regulation."

He says that if voluntary regulation goes, "it cannot be imagined that nothing will be put in its place."

The Sun, one of Mr Rupert Murdoch's News International titles, angered the council with its response to an adverse adjudication on a story about a Mr Terrance McCabe, a lorry-driver who refused to cross the Wapping picket-lines.

The council ruled that The Sun was under a particular obligation to be fair in covering a story about an industrial dispute in which it had been involved.

Instead, The Sun pursued the dispute by "cobbling together facts and allegations which were discreditable to the complainant in the guise of a news story." Allegations had been made which could not be substantiated and spent convictions were improperly introduced.

The Sun printed the ruling but repeated the original allegations. The council censured The Sun.

The Sun printed the adjudication but called Mr McCabe a "lying trucker" and said the council's original finding was absurd.

The Press and the People, 33rd annual report. Press Council, 1 Salisbury Square, London EC4Y 8AE. £8.50.

Cardiff's plan to revitalise homes set back

By Anthony Moreton, Welsh Correspondent

CARDIFF'S ambitious plan to revitalise its ageing stock of houses has been radically revised by the Government.

In August, the city proposed a £500m scheme phased over 10 years to modernise its older houses, in both private and public sectors, many more than 100 years old.

The Welsh Office has replied that the most that can be spent in the first year is £11.4m, less than a quarter of what the corporation believes is necessary. The council has described the rejection of its plans as "worse than a disaster."

The heart of the scheme was a proposed vast expansion of work on the city's older houses. It was also proposed that some 1,500 houses and flats should be built for rent over the next five years, and for housing associations to provide another 1,000.

It is claimed that of the 40,000 houses built before 1919, 10 per cent have serious structural faults.

Cardiff has a good record on working with private owners. For years, recognising the need to upgrade older properties, it has added considerable money from its own resources to that provided by the Government.

This approach was, however, seen as piecemeal and a more comprehensive programme was considered necessary. Last year 1,387 new houses were completed.

Tory critics of flat-rate poll tax receive backing

BY RICHARD EVANS

CONSERVATIVE critics of the Government's controversial community charge, or poll tax, have received support from the independent Chartered Institute of Public Finance and Accountancy.

Tory rebels have suggested that a charge graduated according to ability to pay would provide a realistic and fairer alternative to the Government's flate-rate proposals, published in the Local Government Bill on Friday, to replace domestic rates.

The idea of a graduated charge was scornfully rejected as "the worst of all possible worlds" by Mr Nicholas Ridley, Environment Secretary, when he launched the community charge legislation, but it is being seized by the Government's critics as the best opportunity for defeating the flat-rate proposal, which they regard as regressive.

A Cipfa report, written by Mrs Rita Hale of Cipfa and Mr Tony Travers of the London School of Economics, shows five different models for a graduated community charge giving different degrees of protection for the poor.

They emphasise the flexibility as well as the fairness of the charge, which would only be levied on those paying national income tax. The wealthy would be protected from local authorities which wished to load the tax burden on them, as the Government could decided on a maximum and a mimimum charge for top and bottom income bands.

According to one example given, the charge in Buckinghamshire would vary from £50 for a couple with a taxable income below £2,500, to £335 with an income of £15,100 and £1,925 for a couple on more than £100,000. That would compare with a flat rate charge of £412 for all adults under the Government's plan.

A Graduated Community Charge. CIPFA, 3 Robert Street, London, WC2. £10.

Liffe volume stays high

BY ALEXANDER NICOLL

VOLUME on the London International Financial Futures Exchange totalled 1.28m futures and options contracts worth a total of £399.7bn in November, the second-highest monthly figure after a surge to 1.64m contracts during the October market turmoil.

The November volume was 92 per cent above that in the same month in 1986. Volume so far this year, at 12.8m contracts, is double that of the first 11 months of 1986.

Liffe has set a launch date of January 7, 1988, for its new futures contract based on medium-term UK government bonds, which is replacing the unsuccessful short gilt future. The new contract will have a £50,000 size with a notional 9 per cent coupon.

Maxwell seeks buyer for Oxford United

PUBLISHER Mr Robert Maxwell and his son Kevin are to seek a buyer for Oxford United. They are giving up the First Division soccer club as a condition of being allowed to buy Watford, which is in the same division.

The league is therefore abandoning legal moves to block the sale to Mr Maxwell of a 93 per cent stake in Watford by Mr Elton John, the pop star.

It was opposed to Mr Maxwell controlling Watford on the grounds that it would have given him or his family controlling or substantial interests in three clubs.

Dounreay may take on research for industry

BY DAVID FISHLOCK, SCIENCE EDITOR

DOUNREAY, the UK Atomic Energy Authority's research centre in Caithness, northern Scotland, may undertake contract research and development for Scottish industry.

The Dounreay Nuclear Power Development Establishment, near Thurso, with more than 2,000 staff, is Scotland's biggest research centre but has been devoted to the fast-breeder reactor.

However, by competing for commercial research contracts in other industries Dounreay could do for Scottish industry what the authority's Harwell laboratory had done in England, Mr John Collier, authority chairman, said.

In the 1960s Harwell pioneered a diversification programme which now earns the authority nearly £40m a year in non-nuclear research contracts from a wide range of industries.

For Dounreay, the leading employer in the county, diversification could be the means to maintain a high level of employment when the £100m-a-year fast-breeder reactor development programme comes under increasing financial pressure.

Dounreay represents almost a quarter of the authority's budget of about £450m. However, Mr Collier said all three of the authority's main sponsors were likely to cut their funding.

The Government, through the Energy Department, and as part of its policy of encouraging industry to spend more generously on research and development, wants the nuclear industry to fund a greater share than the 30 per cent to which it is committed.

The Central Electricity Generating Board, which provides 27 per cent of the fast-reactor budget from a nuclear research and development budget of about £150m, a year, may have to cut this commitment if it is privatised. The fast reactor is seen as a technology for the next century.

British Nuclear Fuels, as the third big sponsor, is also believed to have reached a limit on what it can be expected to spend on research and development.

Mr Collier said Dounreay was a centre of engineering and scientific excellence which had "built up an impressive depth and breadth of experience in a number of technologies."

As its nuclear technology moved into the commercial demonstration phase, with increasing emphasis on routine power production and chemical reprocessing, its scientific capability would increasingly be freed.

Scottish industry would be buying a high level of skill, experience and enthusiasm, he said. "Dounreay is an enormous untapped resource with considerable potential for Scottish industry."

The authority recently appointed a business development director and set up internal inquiries into potential economies which could close some laboratories.

British commercial vehicles set to increase share of market

BY JOHN GRIFFITHS

BRITISH-PRODUCED commercial vehicles appear poised to increase their home market share this year for the first time in five years and only the second time since 1975.

Statistics from the Society of Motor Manufacturers and Traders show that in the first 11 months of 1987, UK-produced commercials took 61.65 per cent of the market, compared with 60.04 per cent in the same period last year.

December is usually a light month for truck and van sales, so the gain of 1.61 percentage points by UK-built vehicles is unlikely to be eroded before the end of the year.

An encouraging sign for UK producers is that penetration has been increased in an expanding market and one which grew at an accelerating rate during November despite the stock market collapses and uncertainties over the dollar.

Total unit sales in the first 11 months reached 294,314, up 7.19 per cent on the equivalent 1986 period. In November, however, they surged by 15.84 per cent to 27,179 from 23,463 in the same month a year ago.

Few people in the industry are prepared to predict the likely state of the industry far into next year, but lower interest rates and fuel prices and the prospect of continuing economic growth were cited as factors behind the market's present relative buoyancy.

The last time imports suffered a setback in the UK commercials market was 1982, when their share fell to 29.9 per cent from 31.4 a year earlier. Until now, that had been the only hiccup in a relentlessly rise in market penetration from just 11.17 per cent in 1975 – an increase which helped bring the UK industry into a balance of trade deficit in the early 1980s for the first time.

Higher sales were registered last month across all main van, truck and bus sectors. Car-derived van and microvan registrations totalled 9,097 compared, with 7,953 the previous November, bringing the 11-month total to 97,756 (98,380). Medium vans reached 11,273 for the month (9,984) bringing the 11-month total to 126,038 (115,057). Trucks bigger than 3.5 tonnes gross vehicle weight saw 5,269 registrations in the month (4,324), bringing the year-to-date total to 54,383 (50,710).

Light four-wheel-drive utility vehicle registrations rose to 1,435 (1,216) for the month and 14,288 for the year (13,333). Bus registrations were 105 for the month (86), although year-to-date sales were below last year's level at 1,849 (2,095).

Outlook for trucks 'favourable'

BY JOHN GRIFFITHS

THE OUTLOOK for the UK truck market over the next five years remains favourable, even though sales of trucks weighing more than 3.5 tonnes gross will not exceed this year's expected 57,000 units, according to the European Truck Forecast Report published today by consultants DRI Europe.

The stock market fall will have only a slight adverse impact on sales next year in the UK and major continental countries, according to the report.

Competition in the UK market, however, is expected to remain intense. Most UK producers are facing uncertain long-term futures, the report concludes.

And while current heavy truck market leader Iveco-Ford has been building market share in a buoyant sales climate, its output is expected to fall as the market stabilises. The authors also say they take "a gloomy view of Ford's medium trucks prospects throughout Europe."

European demand for trucks weighing more than 6 tonnes is expected to drop – but only slightly – next year, mainly because of weaker French and Italian markets but is likely to pick up again in 1989.

DRI also forecasts that the long decline in truck exports to places outside Europe will bottom out next year.

As a result, European output of trucks weighing more than 6 tonnes next year and in 1989 is forecast to be just below the expected 300,000 units of the current year, the best since 1982.

The outlook for trucks weighing more than 15 tonnes is predicted to be brighter than for the medium weight sector.

A buoyant West German domestic market is forecast to help producers there offset the check in export growth attendant on the stronger D-Mark.

The DRI European Trucks Forecast Report. DRI Europe, 30 Old Queen Street, London SW1H 9HP. £1,600,

London public transport to lose rates subsidy

BY KEVIN BROWN, TRANSPORT CORRESPONDENT

LONDON Regional Transport is to be subsidised only by central government after the abolition of domestic rates in London, Mr Paul Channon, the Transport Secretary, has announced.

LRT, which runs London's bus and Underground services, currently receives two thirds of its subsidies from ratepayers and one third from the Transport Department. Ratepayers contributed £159.9m this year towards total subsidies of £239m.

"With the replacement of the present rating system by improved arrangements for local taxation, this levy will no longer be appropriate and I propose then to abolish it," Mr Channon said.

Role for enterprise agencies

By Charles Batchelor

ENTERPRISE AGENCIES, which sprung up to help small businesses, could also supply management training to individuals such as council house tenants and school managers who are being given the chance to run their own affairs under laws proposed by the Government.

The London Enterprise Agency (LEntA) plans to apply its expertise in business training and development to organisations such as schools, housing estates and arts groups which now need to run on business lines.

Mr John Quinton, chairman of Barclays Bank and of LEntA's advisory council, will tell this to the agency's annual meeting today.

The agencies work closely with communities and are well placed to extend their work to take in other organisations, said Mr Brian Wright, LEntA chief executive.

There are about 300 agencies across Britain. They are funded by private business, which also supplies staff on secondment.

There are as yet no plans to make widespread use of the agencies to provide training for council estate and school boards but several housing estates around Glasgow have gone to outside bodies for professional advice.

LEntA was looking at projects in blighted estates in south-east England and may start in Luton, north-west of London, Mr Wright said.

He said care would have to be taken to involve a broad cross-section of the estate-management teams in the training so as not to create a small professional elite.

LEntA and some other agencies already train people running arts groups and community projects. Many courses run by enterprise agencies are financed by the Manpower Services Commission. Funds for extra trainees would probably come from bodies such as the government task forces working in inner-city areas.

Continent's retailers 'are less profitable'

By Maggie Urry

BRITISH retailers are more profitable than their rivals across the Channel, according to a study done by Paribas Quilter Securities, a firm of London stockbrokers which is, ironically, owned by a French bank.

UK consumers, however, may be the ones to suffer through less attentive service, as the main reason for the difference in profitability is lower staff costs. Retailers in the UK make better use of part-time staff and staff costs – such as training, social security and profit sharing – are lower.

Among food retailers in the UK, personnel costs average 8.4 per cent of sales compared with 10.2 per cent in France and 16.4 per cent in Belgium. For non-food the proportion is closer, but still lower in the UK.

A league table of the operating profit per square foot achieved by 28 leading retailers in the UK, France, Belgium and the Netherlands shows UK groups such as J. Sainsbury, Dixons and Marks and Spencer at the top and a preponderance of continental stores at the bottom. Sainsbury's profit of £43.71 per sq ft compares with £2.22 for French retailer Galeries Layfayette.

Paribas also points to the different structure of retailing in the various countries. In the UK the multiples take a much larger share of the market. In Belgium independent retailers control around 67 per cent of the market, whereas in the UK multiples have an estimated 57 per cent.

Michael Cassell looks at the Labour party's policy review

Common ownership still the aim

LABOUR's search for election-winning policies will not be allowed to threaten the party's commitment to the extension of common ownership, Mr Bryan Gould, the Shadow Trade and Industry spokesman, said at the weekend.

Mr Gould was speaking at a London conference organised by the Fabian Society to discuss the party's recently-launched policy review, called in the wake of its third consecutive general election defeat.

The weekend gathering followed a conference in Chesterfield in October which was dominated by the hard left.

The contrasts between the two occasions helped underline the wide divergence of opinion within the Labour movement about the policies and tactics required to revitalise the party's electoral appeal.

Unlike Chesterfield, several members of Labour's frontbench team spoke at the London meeting, pledging their support for the review.

But there were also critics of the Labour leadership who voiced fears that there would not be genuine participation in the re-examination of policy and that it threatened to dump socialist principles in favour of electoral popularity.

Ms Hilary Wainwright, a leading left-wing activist, said Mr Neil Kinnock, the Labour leader, remained "as craven before the altars of the state as Harold Wilson."

She said Mrs Thatcher had given confidence to the monetary classes and Labour could only restore confidence to the working classes by replacing the old institutions of Whitehall and Westminster.

She was not hopeful about the outcome of the review under the present leadership.

Members of the Socialist Workers Party were also well represented and repeatedly intervened in debates. They were roundly seen off by Mr Gould, who claimed their failure to make any impact on the party was because they spent "all their time at other people's conferences."

Mr Gould, who said there was no incompatibility between socialism and popularity, told delegates that, despite a re-examination of policies designed to give Labour a more radical, cutting edge, there could be no withdrawal from certain basic socialist principles.

He said major areas of the economy were best dealt with under public ownership and the party had to go on the offensive to prove the case for expanding the principle of social and common ownership.

Mr Gould claimed that Labour had helped usher in monetarism because of the failure of its economic strategy in the 1970s.

It now had to rectify that mistake by making it clear that it would never again enable the markets and the money men to dictate economic policy, he said.

Bryan Gould: successful are not "moral lepers"

Mr Gould also pledged his support for the strengthening of collective provision - which he stressed did not have to take place at the expense of individualism - and for Labour's commitment to equality and redistribution.

But he said that the party could not "defend the defenceless" unless it enlisted the support of a proportion of the population which was doing well.

They could not, he claimed, be regarded as "moral lepers" and Labour had to applaud their success and convince them they had a contribution to make towards creating a decent society.

Mr Gould attacked those within the party who criticised the review, rejected change and adopted a policy of "no compromise with the electorate," rather than a readiness to listen to what voters really wanted.

He warned that another election defeat would prove catastrophic for Labour and would represent the ultimate betrayal of socialism and of millions of people who were suffering under the Tories.

He acknowledged that the "intellectual stuffing" had been knocked out of the Labour party, which now had to think through its philosophy, have renewed confidence in it and then go out and "evangelise" to sell it to the electorate.

Mr Peter Mandelson, Labour's director of campaigns and communications, said the party had failed at the last election because many voters believed it would mismanage the economy and damage their personal prospects. He said the voters also feared extremists.

The first meeting in the Labour Listens campaign, part of the policy review, will be held in Brighton in January.

Irish extradition changes 'pose practical problems'

BY OUR DUBLIN CORRESPONDENT

PRACTICAL difficulties caused by the new Anglo-Irish extradition arrangements had Whitehall "in despair," Mr Nicholas Fenn, UK ambassador to Dublin, told Irish radio yesterday. But overall, he said, relations between the two countries were "cordial and friendly" despite recent deep differences over extradition.

Modifications to the European Convention for the Suppression of Terrorism were introduced by Mr Charles Haughey's government under pressure from backbenchers. They allow the Irish Attorney General to endorse all extradition warrants from the UK before implementation and are due to be passed by the Irish Senate later this week.

Mr Fenn suggested that these arrangements would lead to practical delays. He confirmed that, despite discussions "at the highest level," they had not been agreed by Britain.

However, despite his vigorously expressed reservations, Mr Fenn said Britain was prepared to try to operate the new system. Britain was reassured, he said, by Mr Haughey's pledge to review procedures in a year if they proved unsatisfactory.

The Anglo-Irish Agreement had not been damaged by the extradition controversy, but rather had provided a framework for airing deep differences

UK NEWS

Challenge to DPP on prosecution changes

By Raymond Hughes, Law Courts Correspondent

MR ALLAN GREEN, the Director of Public Prosecutions, is being taken to court by lawyers in the Crown Prosecution Service, of which he is the head.

Backed by their union, the First Division Association of civil servants, the crown prosecutors will challenge the DPP's proposal to allow non-legally-qualified staff to decide whether a prosecution should be brought.

The lawyers will seek a judicial review with a view to having the plan stopped. It is thought unlikely the case will get to court before January.

The CPS, which took over criminal prosecutions from the police 14 months ago, has from the outset been plagued by a shortage of lawyers, not least, according to its critics, because the salaries and career prospects are insufficiently attractive.

That situation led to the decision in September to use non-lawyers for certain administrative work, leaving the lawyers free to conduct prosecutions in court.

The non-lawyers' function would include advising the police on the quality of evidence, on whether the charges are right and on whether a prosecution should be continued or not.

The FDA and the CPS lawyers say this is unlawful under the 1985 Prosecution of Offences Act, under which the CPS was set up as an independent prosecution service, which requires such work to be done by barristers or solicitors.

The CPS lawyers fear detrimental effects for both the citizen and the criminal justice system, the FDA said yesterday. It could greatly increase the risk of ill-prepared prosecutions where charges are inadequate and of people suffering the distress of criminal charges which should not have come to court, because of lack of evidence or other considerations.

The FDA said that it had been intended that the CPS would be staffed by 1,750 lawyers. At present there are only 1,240, of whom about 1,000 are FDA members.

Next discusses stake in Liverpool dock complex

BY HAZEL DUFFY

THE NEXT retail group is discussing plans with Arrowcroft to take a stake in the Albert Dock complex in Liverpool.

The move was initiated by Mr George Davies, Next chief executive, to involve the group in inner-city regeneration.

The Albert Dock, a mixed shopping, leisure and cultural development in restored Victorian warehouses and docks alongside the River Mersey, is one of the best examples of the waterfront developments which the Government hopes will spearhead urban renewal. The Arrowcroft property group has done the work with Merseyside Development Corporation.

Next has a property development company, so retail development would not be new to the group. However, these plans are different. The aim is not to sell the development but to become involved in management for maximum benefit to the community.

Mr Davies believes the spin-off for Liverpool from the prestige Albert Dock development, where a wing of the Tate Gallery is due to open next year, will be quicker if it is organised.

He said: "People said I was mad to put coffee bars and flower sellers in the front of Next shops. You can't make money from that, they said. But it worked. It brought people in."

He wants to use Next's ideas and marketing resources to boost the reputation of the Albert Dock among the public.

"Why not have floating restaurants or a conference centre? They are already talking about a hotel," Mr Davies said.

The retail element of the development has been confined to speciality shops. "That's all right but the overall impression is that it is too prissy," he said.

"My plans might mean a Next store there. I think there is scope for small stores like ours and the Body Shop, for instance, which could be made to fit in with the surroundings.

"But that is not the most important thing. I want to make the point that industry, retailers, have a role in the inner cities even if the return there is not big."

Mr Davies, who reshaped the old Hepworth stores with his Next concept and has become a formidable pace-setter in retailing, comes from Liverpool. However, his plans for inner-city involvement extend to other cities away from the south of England.

He says the main reason for retailers not taking the lead in creating interesting centres in such areas is the financial framework in which they are developed.

"The property boys have got their way for too long. It is time for a shift in the balance," he said.

The John Lewis Partnership warned earlier this year about some of the dangers for the high street resulting from the attraction of out-of-town shopping centres for developers and institutional funds.

However, Mr Davies thinks it is also the reason for "the boredom of high streets. They will kill themselves because the finances are such that only the 'names' can afford to go into them.

"But the retailers are their own worst enemy. We are paying £800,000 a year rent in Oxford Street. That is why there are no tobacconists or interesting little shops."

His plans for involving Next in inner-city property development do not stem from any talks with ministers. He believes it is up to the private sector to get on with the plans and that industry – manufacturing and services – has the responsibility.

"We have to re-invest in people even if it does not show up in our assets. Too much attention has gone into putting the money into buildings."

Mr Davies added: "I have to be big enough to say: okay, I've made a bit less this year but I will be here next year and so will the community."

Event to aid links in commerce planned

Ralph Atkins

EXECUTIVES from more than 200 companies and up to 2,000 fund managers could be brought together at a three-day "information exchange" event planned for next October.

The event, which is thought to be the first of its kind, is designed to improve and speed the flow of information between industry and the City. It is being organised by Equity Information Exchange, a company formed earlier this year.

Company executives are being invited to book suites at the Queen Elizabeth II centre in London to make presentations and entertain large institutional investors. The organisers hope to attract at least 90 companies, but up to three times this could be accommodated.

The organisers estimate there are about 20,000 fund managers, analysts and investment advisers in the UK, of which about 10 per cent hold key positions. The event would allow them to visit perhaps 30 companies in three days, accumulating information and contacts that would normally take many weeks.

For companies, the exchange would allow executives to meet many more investors than is usually possible.

The International Equity Information Exchange, is an attempt to bridge the industry-City divide identified by, among others, the Confederation of British Industry. It is expected to cost about £750,000 to stage.

The idea for the event followed research by the organisers that revealed City investors were reassessing the quality of available information, while companies were concerned about the problem of misinformation being provided to fund managers.

Mr Richard Copley-Smith, managing director of Equity Information Exchange, said: "As a result of Big Bang, there was a competitive pressure to generate research to assist in the sales of equities but the quality of that research, in some instances, was less high than had been historically expected," said

Warning on customs reforms

BY PETER MONTAGNON, WORLD TRADE EDITOR

MANY COMPANIES could face difficulties with exports from next month because they are not prepared for extensive changes in customs procedures which are due to come into force on January 1, the London Chamber of Commerce warned at the weekend.

The changes involve the introduction of a new international system of tariff classification and the EC's Single Administrative Document for customs declarations. They amount to the greatest shake-up in customs administration since Britain joined the EC in 1973.

"Those who do not have their new paperwork and tariff codings ready by January 1 will find that they will not get customs here or overseas to accept their entry declarations. Delayed movement will jeopardise business and cash flow, and increase warehouse costs," said Mr Brian Burke, the chamber's Head of Export Services.

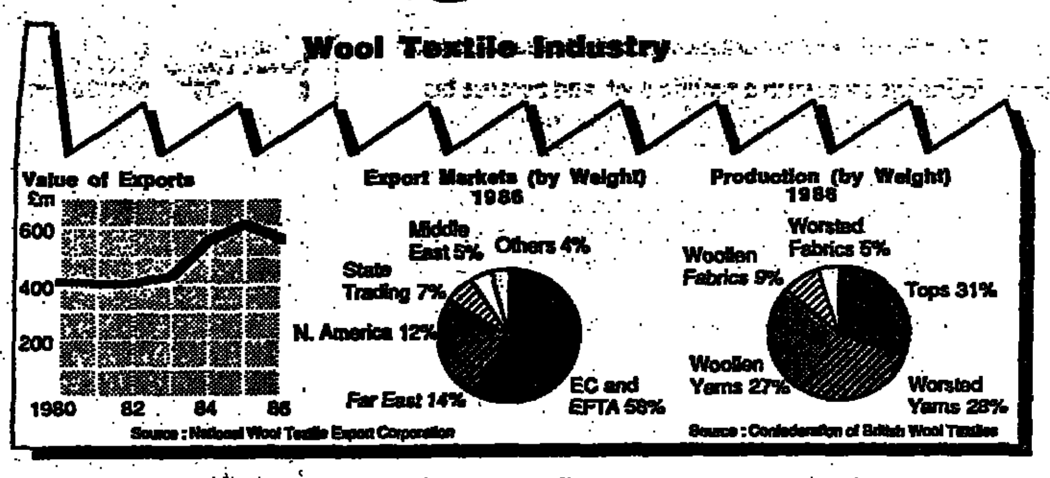
The EC's Single Administrative Document, which is being introduced throughout the community on January 1, is designed ultimately to make customs procedures simpler. The same is true for the new international tariff classification system which was agreed by the UN Customs Cooperation Council in Brussels.

Mr Burke issued his warning after sample surveys showed companies were falling behind with practical preparations for the changeover. "Too many are still not treating these massive changes seriously and urgently enough," he said.

Companies also need to check with their overseas trading partners to make sure that they too are prepared, Mr Burke said. Mediterranean EC countries are less well-prepared than the UK and exporters risk delays to their shipments at the import end.

Alice Rawsthorn on the problems looming over a recovering Yorkshire industry

Wool manufacturing faces crisis of capacity



YORKSHIRE has been the traditional centre of the wool industry for centuries. Yet in the early part of this decade the industry, which had brought prosperity to the county, came close to collapse.

The recession of the early 1980s dealt a crippling blow to an industry which had been in decline for more than half a century. In the darkest period a mill closed every day. As one woolman put it: "If it was not for the fact that we Yorkshire folk are too bloody-minded to admit defeat, there would not be a wool textile industry in Britain today."

In recent years the industry has recovered. There are no more mill closures or job losses. Output has increased for the past four years. Exports faltered last year, but have since returned to growth. Investment in plant and machinery has ensured that in many areas the industry is now competitive with its counterparts in Italy and West Germany.

The Yorkshire wool industry has now reached a watershed in its fortunes. The mills must now decide whether to invest in extra capacity in an attempt to win back the market share lost over the years.

The British wool industry encompasses more than 350 mills employing nearly 40,000 people. Almost two thirds of output comes from Yorkshire, the rest from Scotland and the West Country. The mills tend to be small: the largest – Thomas Burnley, part of the Coats Viyella empire – employs 700.

The Yorkshire industry embraces every aspect of wool production, from top-making to spinning and weaving. There is little direct competition between individual companies, most work within their own market spheres.

Many of the companies are still in family hands. Yet the modern mill manager tends to be a professional executive regarding the business as a commercial concern rather than as a personal fiefdom. Gone are the "wool barons" of the 19th century, flamboyant figures such as Titus Salt and Edward Akroyd.

Some vestiges of the past remain. The rivalry between individual mills may have dissipated, but the clannish nature of the industry persists. "Outsiders" – anyone foolish enough to be born outside the county boundaries, tend to be frowned upon. Even today Yorkshire businesses are rarely sold to buyers outside the county.

The industry was incensed four years ago when Illingworth Morris, the largest Yorkshire wool company, fell into the hands of Mr Alan Lewis, a Manchester businessman. It was even more incensed when he made a success of it. There is still some doubt that Illingworth will ever be "permitted" to buy another business within the Yorkshire industry.

This blend of the old and the new is evident within the wool mills. In the past decade or so the introduction of open-ended spinning systems and shuttle-less weaving looms has transformed the production process.

Automation has enabled the industry to achieve significant improvements in speed and efficiency. The shuttle-less looms at Allied Textile's Moxon worsted mill in Huddersfield run three times faster than their predecessors.

The pace of technological change is accelerating as automation spreads to other parts of the production process. The design team at the Parkland plant in Bradford now works with a computer-aided design system.

Yet some areas are unaffected by advanced technology. It is difficult to see how "checking and mending" – whereby skilled seamworkers tresses find and repair faults in the cloth – could ever be automated. Even modernised mills, like the John Crowther plant in Huddersfield, use antiquated wooden looms to weave light cloths.

Automation has fuelled a dramatic improvement in productivity. The overall output of the British wool industry is still lower than before the recession, yet output per employee rose by 50 per cent between 1975 and 1986, according to the Confederation of British Wool Textiles.

This improvement, combined with comparatively low labour costs, has enabled the British industry to become more competitive with its overseas counterparts.

In the early 1980s the industry withdrew from the lower-value markets dominated by the Far East. This should enable it to weather the present weakness of the US dollar, and of the Far Eastern currencies linked to it, and the rise in raw material prices more efficiently than other areas of the textile sector.

Productivity improvements have also ensured that Yorkshire can match its chief competitors, the Italians, in the higher-value areas of production. But the Italian industry still has the edge in lower-value markets.

One advantage of the Italians is that the level of modernisation tends to be higher than in British mills. Another advantage is that Italy has a source of cheap raw materials in the "shoddy" – or recycled – wool produced in the Prato region. The growth of the Prato shoddy trade in the 1950s sealed the demise of many of the Yorkshire shoddy mills.

It is generally agreed the key to the industry's future is continued investment in new technology. But so far this investment has concentrated on improving productivity, rather than increasing capacity. Whether the industry can muster the confidence to invest in expansion for the future remains to be seen.

Proof that Epson's new laser printer can make anything look good.

Not everyone can be a great writer like what Shakespeare was.

But with the new Epson GQ-3500 laser printer, anyone can make their work look outstanding — however rotten it's wrote.

The GQ-3500 produces professional-quality artwork with fully-formed headlines, typeset copy and superb graphics that will put any typed-and-photocopied effort to shame.

Moreover, it can do this far faster and cheaper than any design studio or printing shop.

One man who could certainly have done with it was the 19th-century Scottish poet William McGonagall.

For reasons that will become obvious, he could not get anyone to publish his 'Poetic Gems' and so had to pay a local printer to do the job.

If he'd had a GQ-3500 on his desktop, however, he could have published them himself and made them look as impressive as this:

THE TAY BRIDGE DISASTER

BEAUTIFUL Railway Bridge of the Silv'ry Tay!
Alas! I am very sorry to say
That ninety lives have been taken away
On the last Sabbath day of 1879,
Which will be remember'd for a very long time...

THE BATTLE OF EL-TEB

YE sons of Great Britain, I think no shame
To write in praise of brave General Graham!
Whose name will be handed down to posterity without any stigma,
Because, at the battle of El-Teb, he defeated Osman Digna...

THE MIRACULOUS ESCAPE OF ROBERT ALLAN, THE FIREMAN

'TWAS in the year of 1888, and on October the fourteenth day,
That a fire broke out in a warehouse, and for hours blazed away;
And the warehouse, now destroyed, was occupied by the Messrs
R. Wylie, Hill & Co.,
Situated in Buchanan Street, in the City of Glasgow...

JENNY CARRISTER, THE HEROINE OF LUCKNOW-MINE

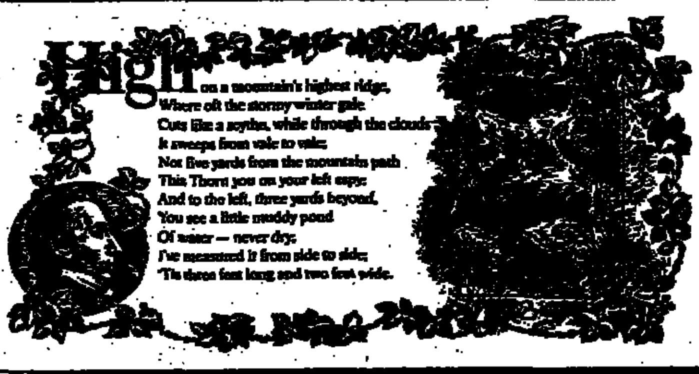
A HEROIC story I will unfold,
Concerning Jenny Carrister, a heroine bold,
Who lived in Australia, at a gold mine called Lucknow,
And Jenny was beloved by the the miners, somehow...

Since McGonagall was such a prolific poet, and because his compositions tended to be great in length (if not in quality), he would doubtless have appreciated the speed of the GQ-3500. (It prints six A4 pages per minute.)

And being a canny Scot, he would also have approved of its modest price — a mere £1,795 (RRP, excluding VAT but including a Hewlett Packard emulation card which would cost around £125 to buy separately).

Yet William McGonagall was not the only poet whose work would have benefited from laser printing.

In the following bathetic extract from 'The Thorn', William Wordsworth shows just why people left him to wander lonely as a cloud.



High on a mountain's highest ridge,
Where oft the stormy winter gale
Cuts like a scythe, while through the clouds
It sweeps from vale to vale;
Not five yards from the mountain path
This Thorn you on your left espy:
And to the left, three yards beyond,
You see a little muddy pond
Of water — never dry.
I've measured it from side to side;
'Tis three feet long and two feet wide.

At least with the GQ-3500, Wordsworth could have illustrated his concern for the puddle's exact dimensions with an accurate diagram of it.

Several present-day novelists spring to mind whose work would be greatly improved by laser printing.

But rather than risk a heavy libel suit, we have again chosen a writer from the 19th century.

Here are the opening lines of two novels by Edward George Earle Bulwer-Lytton — and as you will see, they need far more than the usual printer graphics, such as bar graphs and pie charts, to make them look good:

"It was a dark and stormy night; the rain fell in torrents — except at occasional intervals, when it was checked by a violent gust of wind which swept up the streets (for it is in London that our scene lies), rattling along the housetops, and fiercely agitating the scanty flame of the lamps that struggled against the darkness."

From 'Paul Clifford' (1830).

"'Ho, Diomed, well met! Do you sup with Glaucus tonight?' said a young man of small stature, who wore his tunic in those loose and effeminate folds which proved him to be a gentleman and a coxcomb."

From 'The Last Days of Pompeii' (1834).

Surprisingly, Bulwer-Lytton was second in popularity only to Charles Dickens in his day.

Today, he is chiefly remembered as the inspiration for the Bulwer-Lytton Fiction Contest, held every year in the United States.

The aim is to write the worst possible opening sentence for an imaginary novel — and the following entries were awfully successful:

The camel died quite suddenly on the second day, and Selena fretted sulkily and, buffing her already impeccable nails — not for the first time since the journey began — pondered snidely if this would dissolve into a vignette of minor inconveniences like all the other holidays spent with Basil.

*

He was a Portuguese who had never fished and she was a Chinese who couldn't cook rice; he had enough hair on his chest to make a coat for a very small Hungarian and the way she kissed it made him wonder why.

*

Pignthgr had hidden his mtskrthkl in the mothchenth, and now he had taken the beautiful and magical Mekthkn and her infant Trmyfjp there, too, and they all trembled as they heard the fearful chtlems of the invading Hmewrs just above.

*

You will notice that each entry has been produced in a different typeface. Changing between the seven resident fonts on the GQ-3500 is even simpler than McGonagall, thanks to the LED 'Selectype' panel on the front — and other fonts can easily be engaged by inserting special 'credit cards' into slots on the side of the machine.

In a previous Epson advertisement, we suggested that the near-silent SQ-2500 ink-jet printer was the only machine that the near-silent President Calvin Coolidge would have allowed in his office.

However, the GQ-3500 is so quiet, he would surely have approved of this as well.

For making bad writing look good, though, it would have been of more use to Coolidge's immediate predecessor in the White House:

HARDING

Warren Gamaliel Harding,
President of the
United States 1921-1923.

"I would like the government to do all it can to mitigate, then, in understanding, in mutuality of interest, in concern for the common good, our tasks will be solved."

"I have had the good intention to write you a letter ever since you left, but the pressure of things has prevented, speeches to prepare and deliver, and seeing people, make a very exacting penalty of trying to be in politics."

"I carry no bitterness in my heart which dates from 1912."

"America's present need is not heroics but healing; not nostrums but normalcy."

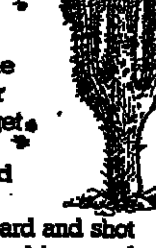
"Progress is not proclamation nor palaver. It is not pretence nor play on prejudice. It is not the perturbation of a people passion-wrought, nor a promise proposed."

The GQ-3500 is certainly very flexible. It has an IBM character set fitted as standard, and both parallel and serial interface options are available to allow it to work with virtually any computer.

Gilbert Bohuslav should have used one with his DEC PDP 11/70 in Houston, Texas.

He had managed to teach it how to play chess — but when he tried to get it to write a Western story, this was the result:

Tex Doe, the marshal of Harry City, rode into town. He sat hungrily in the saddle, ready for trouble. He knew that his sexy enemy, Alphonse the Kid, was in town.



The Kid was in love with Texas Horse Marion. Suddenly the Kid came out of the upended Nugget Saloon. "Draw, Tex," he yelled madly. Tex reached for his girl, but before he could get it out of his car, the Kid fired, hitting Tex in the elephant and the tundra.

As Tex fell, he pulled out his own chess board and shot the Kid 35 times in the King. The Kid dropped in a pool of whisky. "Aha," Tex said, "I hated to do it but he was on the wrong side of the Queen."

Hardly a memorable composition, you will agree — but with the help of all the graphics stored in its own powerful 640K memory (expandable to 1.5Mb), the GQ-3500 does make it appear accomplished.

Like all Epson printers, the GQ-3500 has a full international character set built in, which would have made it perfect for Pedro Carolino.

He was a Portuguese who spoke no English — but he did not allow this to stop him from writing a phrasebook with the help of his Portuguese-French and French-English dictionaries.

Portuguese	English

Preface

We expect then, who the little book (for the care what we wrote him, and for her typographical correction) that may be worth the acceptation of the studious persons, and especialy of the Youth, at which we dedicate him particularly.

Familiar Phrases

À quê hóras sẽ jânta?	*At what o'clock dine him?*
Toucái-vos ôu tôuque-se.	*Dress your hairs.*
Núnca devêmos zombár dôs infelízes.	*It must never to laugh of the unhappies.*
Vôs cantáis ôu Vm. cânta múito bêm.	*You sing not very deal well.*
Estóu encatarroádo ôu endefluxádo.	*I am catched cold.*

Idiotisms and Proverbs.

Por dinheiro baila o perro.	*Nothing some money, nothing of Swiss.*
Vâle pesádo â ôuro.	*He is valuable his weight's gold.*
A cavallo dado não se lhe olha para o dente.	*A horse baared don't look him the tooth.*
Pedra movediça nunca mofo a cubiça.	*The stone as roll not heap up not foam.*
Não tem eira, nem ramo de figueira.	*He is begger as a church rat.*

Familiar Dialogue.

Vênho vêr ôs sêus môveis; quêro mobilár ûm aposênto.	*I come to see yours furniture, I have a apartement to furnish.*
Aquí achará Vm. tôdos ôs dê quê precisar.	*You will find to my store house whole that you won't.*
Êsse tráste dê salão, côm damásco cramesim, é compléto?	*Is it complete this parlour furniture in damask crimson?*
Sím, senhór.	*Yes, sir.*
Não me parêce nôvo.	*It seems no me new.*
Tál não diga: sáhe dâs mãos dô fabricánte.	*Pardon me, it comes workman's hands.*
Têm Vm. espêlhos?	*Have you some glasses?*
Dê quê tamânho ôs quér?	*Which highness want you its?*
Dê quátro pés, sêus pollegádas dê lárgo, ê sétte d'altúra, pôuco máis ôu mênos.	*I want almost four feet six thumbs wide's, over seven of long.*

On the subject of size, the GQ-3500 has a hightness of only 8.46 thumbs, has one foot 3.9 thumbs wide's and one foot 4.4 of long. This makes it the most compact laser printer you can buy.

The list of possible applications is virtually endless.

You can use the GQ-3500 to print anything from simple memos and letters to full-blown official documents. It can even make government regulations appear interesting:

EXPLANATORY NOTE.

Regulation 3 of the Local Government (Allowances) Regulations 1974 ('the 1974 regulations') (S.I. 1974/447) made provision prescribing the amounts of attendance and financial loss allowances payable to members of local authorities. Regulation 3 of the Local Government (Allowances) (Amendment) Regulations 1981 ('the 1981 regulations') (S.I. 1981/180) substituted a new regulation for regulation 3 of the 1974 regulations. Regulation 3 of the Local Government (Allowances) (Amendments) Regulations 1982 ('the 1982 regulations') (S.I. 1982/125) further amends regulation 3 of the 1974 regulations, with effect from 8 March 1982, by increasing the maximum rates of attendance and financial loss allowances. Regulation 7 of the 1982 regulations would have revoked both regulations 3 and 5 of the 1981 regulations (regulation 5 being a regulation revoking earlier spent regulations) with effect from 1st April 1982. These regulations preserve regulations 3 and 5 of the 1981 regulations by revoking regulation 7 of the 1982 regulations.

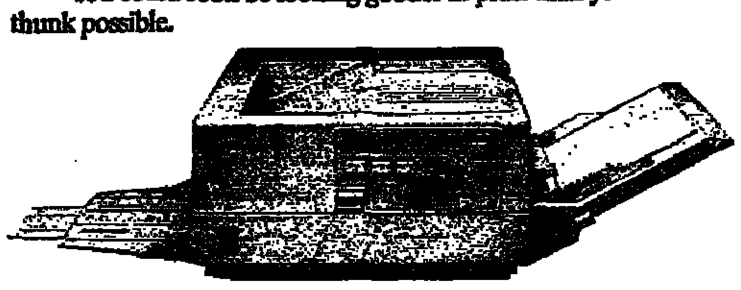
Unfortunately, it cannot save them from being as comprehensible as the average computer manual.

(The GQ-3500, on the other hand, is extremely easy to operate and maintain — though as you would expect of an Epson, it is exceptionally reliable.)

You have now seen the proof that laser printing can make even the worst writing appear polished — so just imagine what it could do for yours.

Find out more about the GQ-3500 by writing to: Epson (U.K.) Limited, Freepost, Birmingham B37 5BR. (Alternatively, call up Prestel *280# or ring 0800 289622 free of charge.)

You could soon be looking gooder in print than you ever thunk possible.



EPSON

Bulwer-Lytton Contest entries reproduced from 'It was a Dark and Stormy Night' ed. Scott Rice (1984); 'Explanatory Note' from 'Gobbledygook' by the Plain English Campaign (1984).

The interest rate fairy-tale

ANTHONY HARRIS

THERE IS a grown-up fairy story, which some readers may recall more clearly than I do, about a man who had three wishes. The first two were granted in such literal-minded excess that his third wish was to have no more wishes.

The stock market behaved rather like that last week. It had swallowed its disappointment with the US Budget compromise quite manfully, and was only moderately depressed by the half-hearted German fiscal package. The co-ordinated cut in European interest rates on Thursday, however, was apparently too much to bear.

This reaction to the failure of the dollar to rally suggests a good deal of naivete in the markets. However, it is not just Americans who seem to need some coaching on how exchange markets work; there seems to be an international conspiracy to overlook a fundamental point. It is this: short-term rates may be able to compensate investors for perceived risk in a freely floating currency. However, when a currency is propped up by intervention, and especially by fitful *intervention, then no tolerable* differentials are big enough to do the job.

Anyone old enough to remember the sterling crises of the "fixed" rate regime will know why. A five-point differential will compensate for an expected downward drift of 5 per cent a year; but if a currency is expected to make a sudden drop of 5 per cent some day next week, then it can require three-figure short-term rates to persuade private holders to stay put. They need not 5 per cent annually, but 5 per cent a week, or even 5 per cent a day.

It might be thought that market pressures would move rates some way towards what might be needed, even if governments were reluctant. In fact, in the special circumstances of a dollar crisis, market pressures are actually working the wrong way. This happens because the dollar exchange rate worries foreign governments more than it does the US government; and because the US has always been happy to sell Treasury bills to private investors. Some other governments regard this as printing briefly-deferred banknotes, and therefore inflationary. As a result, when foreign central banks fear a further dollar fall, or when private investors fear a weak bond market, both groups buy Treasury bills. That holds short-term rates down. Even if a small widening of the interest rate differential would do the trick, it might be difficult to get it.

On this reading the market chose the wrong day to fall out of bed yet again, because what happened on Thursday should not have come as a surprise. Unfortunately, that is not the same thing as saying that the markets should not have fallen at all. There is a good political reason: the consensus which seemed to have emerged at the Plaza and Louvre meetings of finance ministers is breaking up.

The Japanese, for once, are hardly involved. They have some worrying adjustment problems at home, but all their trading partners agree that they have done their international duty splendidly. Their economy is picking up fast, though nobody seems to know why, and as a result their trade deficit is shrinking.

The Germans, on the other hand, are generally accused of having done much too little to sustain world demand, and that little much too late. The US, even worse, is thought to have fudged its budget cuts and gone back to benign neglect of the dollar; while the British, who need hardly be involved at all, seem to have appointed themselves as mediators, with free advice for all. If Mr Lawson's aim was to annoy everyone so much that they forgot their own quarrels, this might be quite a subtle strategy; but *in fact he* seems quite hurt when his initiatives, on debt relief and managed floating, are ignored.

The sad thing is that the British proposals seem a good deal more sensible than what is going on at the moment. Debt relief for the less developed countries would do wonders for American exporters in the markets they are best able to supply; and a believable system of exchange rate management, starting from the point we have reached by now, might bring interest rates down.

Mr Lawson has not stressed these practical benefits, which would surely appeal to the highly political US Treasury Secretary, Mr James Baker, but has presented debt relief and rate stability as ends in themselves. This approach is unlikely to work in Washington, because of the unpopularity of bankers in the US, which is ancient history, and the more recent resignation of Mr Paul Volcker.

Officially-sponsored debt relief would be seen here as public expenditure on a bank bale-out. Exchange rate stabilisation, which appealed to Mr Volcker, seems much less interesting to his silent successor at the Fed, Mr Greenspan.

Unless Mr Lawson makes unexpected progress with his rival lectures on economics, we seem to have a stand-off. The Germans will continue to regard an effective stimulus as inflationary unless the Americans do some real fiscal tightening, which is impossible. Mr Baker will continue to neglect the dollar, if that is what it seems to take to hold interest rates down - a policy logically equivalent to taking the weight off your feet by jumping out of a high window; but not so very dangerous *as long as your friends keep up a* supply of parachutes...

You can measure how worrying this situation is by the fact that some responsible officials are hoping - yes, hoping - that the stock market will fall far enough to deflate US demand. Without any "impossible" political decisions.

INTERVIEW

Rumblings of discontent

Roger Matthews talks to Tunku Abdul Rahman, father of modern Malaysia

FORMER Prime Ministers may be derided, ignored, banished or simply forgotten. A few are still listened to with respect within their own country. The rarest of all are those who win and retain the nation's affection.

Tunku Abdul Rahman Putra ibni Almarhum Sultan Abdul Hamid Halim Shah belongs to the last category. Now 84, his sight fading, a slipped disc limiting his mobility, but his voice firm and intellect vigorous, Malaysia's first Prime Minister and acknowledged father of the nation is known simply as The Tunku. In a country where tunkus, or princes, are almost as ubiquitous as they are in some *Arab states*, the use of the definite article defines the man. Ask a Kuala Lumpur taxi driver to take you to The Tunku and the chances are that you will arrive at 1 Tunku Abdul Rahman Street, his official residence in the capital.

He is one of an almost extinct breed of politicians who stumbled into government by chance, took to leadership with the ease born of privilege, charmed both colleagues and opponents and relied heavily on instinct. Malaysia's independence from Britain 30 years ago was not easily negotiated, but it was achieved without lasting rancour and without a single Malay leader spending even a night in jail.

The Tunku would not have had it any other way. "I fought the British. I was not frightened of them. But when it was all over they became my friends." He reels off a list of former British Prime Ministers and foreign secretaries with whom he maintained close personal relations. The late Harold Macmillan described The Tunku as "a remarkable Prime Minister, always lively and generally wise; and if I had occasion to accept that his passionate devotion to association football had led at times to acts of truancy from Commonwealth Prime Ministers' meetings – particularly when the subjects under discussion did not seem greatly to affect his people – my colleagues and I were always delighted by his company and assisted by his experience and sagacity."

But if The Tunku, at times, would rather be at Stamford Bridge, watching Chelsea, than sitting with the inheritors of the British empire in Lancaster House, it reflected more the man's enjoyment of leisure than his lack of commitment to principles.

The Commonwealth still matters to him, as do the pledges he made when negotiating Malaysia's independence as a sovereign nation. The wheel has to some extent come full circle. The issues which The Tunku debated with the British 30 years ago are the issues which are again confronting Malaysia; the man with whom he is locking political horns is the one he kicked out of the United Malays National Organisation in 1969, Dr Mahathir Mohamad, the present Prime Minister, and as far as The Tunku is concerned, the requirement for political courage is again on the line.

Age confers benefits, according to The Tunku, and one of them is the right to speak your mind. Just as his friend Harold Macmillan could, as Earl of Stockton, warn an attentive House of Lords about the dangers of a divided Britain, so The Tunku, in more forthright language, spells out the risks run by Malaysia.

He starts deceptively gently. "I was the happiest of Prime Ministers and I think that generally I have been quite successful. Only now do I have regrets, only now am I sad. I cannot any longer speak to the people. I wrote a column every Monday. I think people liked it. Now the paper has been banned.

"Malaysia has been made a police state. It is going against all the promises we made at independence to make this country a democratic, parliamentary state with a constitutional ruler. This man is going against all that. He is setting himself up as a permanent dictator of the country. He has shut down all the opposition. I did not think that any member of our party would ever resort to this." Then a pause for thought and a broad smile. "I told my children that if I had done that and used the powers of the internal security act, I could still be Prime Minister today - at 84 years old." And the smile gave way to laughter as The Tunku contemplated the prospect.

● PERSONAL FILE

1903: Born February 8, educated Penang Free School and St Catharine's College, Oxford (1922-25).

1951: Chief Minister of Malaya.

1955-57: Prime Minister of Malaya.

1957-63: Prime Minister of Malaysia.

1963-71: Secretary General of the Islamic Conference Organisation.

1970-73: Honorary doctorates of law from both Oxford and Cambridge universities.

Vice-President for life of the Commonwealth Society; recipient of awards from 12 countries, including the King Faisal award for services to Islam; author of several books.

Dr Mahathir, whose parents The Tunku remembers, has already rejected the accusations, saying that they do not worry him because they are "simply untrue". The use of the internal security act to detain more than 100 people without trial, including some of the most vigorous critics of the Government, the banning of three newspapers including The Star, of which The Tunku is chairman, and the introduction of draconian press laws are officially designed to reduce racial tension, between the Malay and Chinese communities, and to prevent a recurrence of the communal riots in 1969 which led to the resignation of The Tunku.

The contrast between the two men is stark. The Tunku is a relaxed, aristocratic anglophile; Dr Mahathir, the sometimes prickly son of a schoolteacher, who, when he became Prime Minister in 1981, urged the public to "look east" for economic inspiration and to "buy British last" in part in reaction to the raising of educational fees for foreign students in the UK - although this is no longer his policy. The Tunku is proud of the Commonwealth; Dr Mahathir, before going to the Vancouver Summit this year, asked the Foreign Ministry to assess whether it was worth continuing membership.

Both men, of course, are Malays, but one lost office because he was seen, in part, as too sympathetic to the 35 per cent of the population who are Chinese; while the other came to power as a champion of positive discrimination in favour of his own community, which makes up just over 50 per cent of the nation. Whereas The Tunku, never rich but with wealthy friends, was fairly content for the Malays to retain political power while the Chinese provided the country's main economic motor, Dr Mahathir is an enthusiastic advocate of a new economic policy which aims to put 30 per cent of the country's corporate wealth in Malay hands by 1990.

Superficially, at least, there is today not much of a contest between the two men. "All you ever read in the papers these days is what Mahathir says," grumbles The Tunku. "I can no longer speak within the country, so I have to speak outside it. Can that be right?"

As if to challenge Mr Mahathir even on medical grounds, The Tunku reaches for his well worn silver cigarette case and lights up. "I always smoke Goldflake. They used to make them here in tins of 50, certainly about the time I returned from St Catharine's College, Oxford, but they stopped in the early 1950s." The Tunku, who had played outside right for his village team, played inside right for St. Catharine's and found time, just, to graduate.

Just as smoking did not stop him playing soccer, being a good Moslem has not stopped him enjoying a glass of brandy and soda every evening. He grew up in a strongly Islamic environment, the 20th of his father's 45 children, his mother the sixth and favourite of eight wives. "Of course, my father only had four wives at any one time. That is what was allowed."

Islam, and irritation at some of its adherents, has taken up a good deal of The Tunku's time since he stepped down from the premiership. He was the first Secretary-General of the Islamic Conference Organisation but he became dispirited at the Arabs' unwillingness to conform and their attitude towards women. "During my three years as Secretary-General, I tried to make sure they did conform. But the Arabs are a desert people and won't really stick to anything. After I left, the whole system I had built up fell apart. They took out all my papers and just burned them," he says, shaking his head in disbelief.

Neither does he much like what he sees as the increasing intolerance that some Moslems are demonstrating in Malaysia. He does fight back in a modest way. When two men were jailed in Kelantan state for drinking alcohol, he sent their families 6,000 Malaysian ringgit (£1,350) each. "I was not very popular with the state authorities," he recalls unrepentantly. "Islam should be about helping one another, bringing people together, the rich assisting the poor, doing things for the good of all people and carrying out welfare work among the Moslem minorities, such as we have been doing in Europe."

Meanwhile, other faces from The Tunku's past are returning to confront him. Mr Lee Kuan Yew, Singapore's Prime Minister, is suing the Sunday edition of The Tunku's now unpublished newspaper in the Kuala Lumpur courts over an article alleging corruption across the causeway that links the two countries. "We are going to fight him," says The Tunku, *his thoughts quickly slipping* back to earlier, more weighty contests with the Singaporean leader.

"The only time I did the dirty on the British was over Singapore. Lee wanted independence, I knew that. But the British would only give him independence if he joined with Malaysia. But I knew that sooner or later he would break away ... He's just Lee Kuan Yew, head to foot. That's all."

But The Tunku concedes that Lee has done well for Singapore - "much better than we are doing here" - and then adds, with a smile and a characteristic sideswipe, "for a dictator.

"You know the first thing he did when we gave him independence? He made a pact with Israel to build up his defences and they turned their guns towards Malaysia. I know all that. And before, I could so easily have put him in detention," he muses, with another smile.

Was, then, The Tunku's political life a series of missed opportunities to stifle those who later returned to haunt him? He thought not. "I was the happiest Prime Minister. I believe in parliamentary democracy and all dictators have, in the past, come *to a miserable end.*

"Just look at this region. Sukharno (Indonesia) has gone, Marcos (Philippines) has gone. They cannot stay if people do not want them. And the present government here is not a very popular one."

Courts are the real censors

JUSTINIAN

TIMING HAS been the main dictator of the Government's latest move to ban the broadcasting of My Country: Right or Wrong. Had the Spycatcher case before Mr Justice Scott not still been in full flow over the life-long confidentiality imposed on Secret Service officers, the BBC's Radio 4 programme would have been perceived officially in a much less sensitive atmosphere. To some extent, the BBC has brought the injunction upon itself by not postponing the programme until the courts have finally pronounced upon the balance between the public necessity for confidentiality on the part of its Secret Service officers and the public interest in freedom of information about a publicly unaccountable and uncontrolled Secret Service. That said, the Government's move to muzzle the media is worrying, even though the assertion in some political quarters of governmental authoritarianism is somewhat overplayed.

Cries of censorship are too readily voiced in defence of free speech. A censor is an official of government with power to suppress news, among other written material. In this country there is no censor. Prior restraint of publication is achievable only through the courts by way of injunctive relief. The Government, like any other individual who wishes to restrain any publication, must propound some sound legal basis for wanting to apply a gag. On the face of it, the Radio 4 programme posed no threat to national security. What the Government feared was that its former Secret Service officers were willing to take part in the programme in breach of their duty of confidentiality. It was not apparently the content of what they were airing publicly that aroused concern, but the mere fact of their participation in the programme.

Mr Justice Henry, who granted the injunction - an injunction moreover that seems greater in breadth than was necessary to defer the Radio 4 programme until the trial of the action to ban it altogether - should have been less yielding to the forensic *blandishments of Treasury counsel*. English judges, unlike their counterparts in the US and in Australia are still much too deferential to claims for national security. In the GCHQ case in 1984, the House of Lords indicated that courts should not accept the ex cathedra pronouncements of government about national security but should seek to be satisfied that such a claim is justifiable. While it is true that government, through responsible ministers and senior civil servants, must be the best judge of what national security requires, that role does not exclude the judicial function of determining whether the interest of national security is, by proper evidence, demonstrably involved in the case.

Mr Justice Henry may have felt that the Government feared *the proposed broadcast might* have exposed some information touching on the actual workings of the secret services. This could have been allayed simply by a disclosure of the transcript of the broadcast. But the BBC declined to let the Government look at the transcript. It was only prepared to let the judge see it. That qualification was rightly resisted, on the ground that a court should not act on anything which is not seen by both parties before it. Disclosure by the BBC to the Government of the transcript of the programme would not have compromised the right to be free of prior restraint.

If the court is the determinant of whether the temporary ban should have been imposed on the BBC, what would be conceded by disclosure of the transcript, other than a proper appreciation by *the court of the material to be* broadcast? Again the BBC contributed to its being the victim of the ban. *It should now* release the transcript and ask the court to rescind the injunction, on the ground that the Security Service officers' duty of confidentiality extends only to total silence about the information they acquired during their service. It does *not* cover a discussion about the constitutional role of a secret service in a democratic society. Accountability and supervision of the security services is a proper subject for public debate in which past Security Service personnel may describe present unsatisfactory system of unaccountability and lack of supervision.

If the courts are understandably hesitant about adjudicating against government on issues involving national security, no such reticence is excusable in respect of other matters of public interest. The court of appeal's ban on Channel 4's reconstruction of the Birmingham Six's appeal, using actors to recite extracts from the evidence on transcript, is astonishing.

It has long been accepted that any interference in the administration of justice potentially constitutes a contempt. Juries - and perhaps even judges - need to be protected from the influences of media reporting and comment. But the Lord Chief Justice and the two Lords Justices hearing the appeal of the Birmingham Six on reference from the Home Secretary specifically repudiated any suggestion that they could be influenced by the Channel 4 programme - even supposing they were to switch on their television sets. The restraint on Channel 4 was based on the Attorney General's claim that there was a real risk that public *confidence in the administration* of justice would be undermined. It was said that the viewer of the programme might conclude that the witnesses' fresh evidence given to the Court of Appeal was credible, and that a finding by the court ultimately to the contrary would shake public confidence in the reliability of the judicial process. Not to put too fine a point on it, the ruling assumes the average citizen lacks any discernment about what is purveyed through the media. And even if the average viewer of Channel 4 is gullible, how does that gullibility lead to the inference of public repellence at the thorough and fair adjudication by a judiciary that it rightly accorded the highest respect from the *English public*?

The coincidental ban on the BBC and on Channel 4 in the same week discloses a more worrying picture about judicial attitudes to freedom of expression than it does to the misplaced efforts of government to keep every conceivable aspect of national security under wraps.

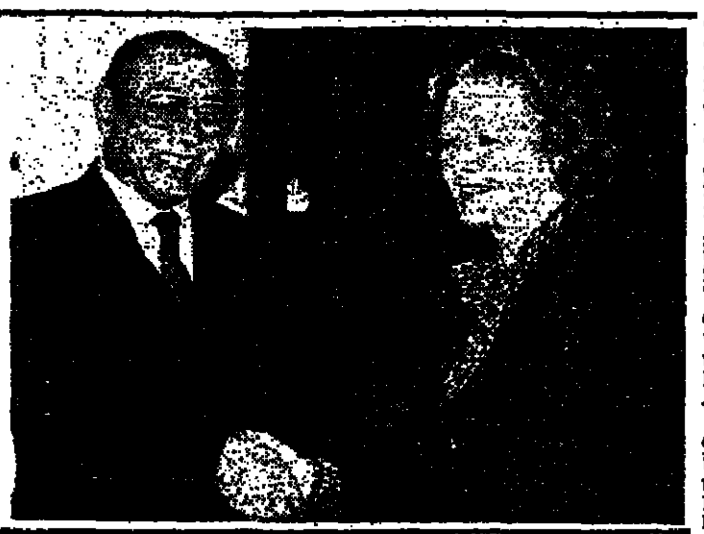
INTERNATIONAL COMPANIES & FINANCE

Conflicts of interest test Japan's consensus

THE OFFICIAL at Japan's Ministry of Trade and Industry thrust over a graph which showed that imports of manufactured goods are going up again - proof that Japan is serious about opening up its markets.

In government, in the Keidanren - the body where Japan's top industrialists come together - and in industry, no opportunity is lost to make the point to foreigners. "Trade friction" has entered the everyday vocabulary, as has restructuring and export restraint. This new mood in Japan is having a subtle effect on the way in which the institutions of Government and industry - particularly the Keidanren - interact.

Hazel Duffy examines the threat to once harmonious relations which existed between government and the Keidanren, the body of top industrialists now led by Mr Eishiro Saito, right, which would be likely to test Mrs Thatcher's distrust of the corporate state



Harmony between government and industry in Japan on the domestic economy and international trade is legendary, and has given rise to considerable envy on the part of European manufacturers. While the Confederation of British Industry pressed the UK Government to take stronger measures to protect British industry threatened by imports - with only partial success - the Japanese Government and industry were basically at one in the direction in which they were going.

Fundamentally, that has not changed. It is still the aim of both parties that agreed policies should be devised and pursued which are to the greater good of the country. But it is not being achieved as smoothly as before.

The relative positions of the players - politicians, bureaucrats and industrialists - are shifting in ways which are still evolving. At the same time, two of the major bodies - Miti and the Keidanren - are having to adjust internally to reflect developments in Japanese industry.

Some of the problems that are emerging at the Keidanren - notably the difficulty of reaching a consensus on policy recommendations - are very similar to those which have hampered the effectiveness of the CBI over the years.

The differences between the Keidanren and the CBI, and other European employers' bodies, are more in evidence than the similarities.

Set up in 1946, the Keidanren has played the major role in harnessing the vitality of Japanese post-war industry toward the building up of the highly successful economy. Its strength springs from three main sources:

- The consultation and consensus tradition which is at the root of Japanese society, and in which the Keidanren plays the key role as the premier economic organisation. It is not a lobbying body but a central element in the process of consultation;
- It is a federation of all the main trade associations, acting like an executive council of the associations;
- The stature of the people who are its chairman, vice chairmen and committee chairmen. The chairman is Mr Eishiro Saito, director and honorary chairman of Nippon Steel, with his colleagues the chairmen of major companies like Toyota, Mitsubishi, Sumitomo Chemicals and the Fuji Bank.

Consultation between government and industry takes place through the powerful Economic Policy Council and the various councils which advise all the main ministries. The council on the economy is rather like the National Economic Development Council in Britain (minus the trade unions) except that it has the sort of status which NEDC was only rarely accorded even in the days when planning was more fashionable.

The Keidanren takes part in these councils, together with the other most important economic organisations - the Nikkeiren (Japan Federation of Employers' Associations), and Nissho (Japan Chamber of Commerce and Industry). These councils also comprise representatives from various other walks of life, such as trade union leaders and academics, with the intention of obtaining a consensus from a wide cross-section of society.

One of the most important councils is on industrial structure, which advises Miti. It meets two or three times a year, and can be convened on an ad hoc basis to discuss particular policy proposals.

This regular and formal consultation is in sharp contrast with the CBI which, on a formal basis, meets the Chancellor annually to present its budget proposals. The frequency of less formal meetings depends very much on the personalities in Government and the CBI.

Mrs Thatcher's distrust of the corporate state extends to the CBI. She may invite individual businessmen who are CBI members to give their views but, equally, she consults with businessmen who quite probably are outside the CBI orbit.

The public putdowns by ministers of CBI proposals for an alternative system of raising rates from business, and to keep down the price of electricity to industry, just could not happen in Japan. Consultation takes place before the event so that what emerges is an agreed policy.

The Keidanren has informal links with politicians and officials at all levels. The influence that the chairman was able to use - backed by those who were big contributors to the Liberal Democratic Party - used to be immense. Although it has never been confirmed, a former chairman of the organisation is said to have suggested to the Prime Minister at the time that he should resign.

At any rate, it used to be said that when the Prime Minister met the chairman of the Keidanren, it was the former who bowed lowest. Now, it is said, it is the other way round.

The Keidanren's influence is still substantial, but it is lessening as the external pressures on Japan increase for her to behave as a "responsible" trading member of the economic order and as wealth shifts from the industrial to the financial sector.

"In the 1960s, our purpose was clear cut. There was consensus between government and the private sector. Today, there is a growing discrepancy so that we ask ourselves, what is our major purpose?" says Mr Katsuhiro Fujiwara, director of the industry and telecommunications department at the Keidanren.

"The Keidanren's aim is to give the adjusted voice of industry to government, not the egotistic voice of a particular industry. But that is getting more difficult. The conflict between sectors is sometimes intense."

The influence of an organisation depends on its ability to deliver as well as to ask for something. The Keidanren has often been called on by the government to settle disputes between sectors so that it can get to the point where it speaks with that adjusted voice.

But consensus is increasingly difficult to achieve. Export restraint is probably the foremost issue where the view of the Keidanren is glaringly absent. Many of its members want to be free to export without restraint.

"It cannot reach a consensus on export policy. It's too big even for them", says Mr Masakazu Toyoda, Miti international policy planning director.

The problem goes back a few years. The former chairman of the Keidanren, the late Mr Yoshiro Inayama, shocked leaders of the automobile industry when he called for an extension of export restraints of cars to the US.

The motor manufacturers were supported by the semiconductor industry, which has since been pushed to restrain its exports to the US and third-market countries under a separate agreement. These agreements - which are forced, not voluntary, says the Keidanren - have been negotiated separately between MITI and the relevant trade association.

The Keidanren's difficulties over export policy is in contrast with the way that it has often pushed the Government to remove import barriers and expand the domestic market more quickly. The cynical verdict on these stances might be that industry has less to lose in this respect, while it might alleviate pressure from the US for action on exports.

On agriculture, too, the Keidanren is pressing for the government to reduce subsidies, although - sensibly in view of the sensitivity of the issue - not on rice.

But there have been recent setbacks for the Keidanren, for example, over opening up the international sector of telecommunications to competition. The industrialists had pushed for it, but wanted the competition limited to one effective consortium. The Ministry of Posts and Telecommunications disagreed and wanted two consortia. It won. On the other hand, the Keidanren had a significant impact on the July budget which cut taxes.

Professor Ronald Dore, the commentator and author of books on Japan, stresses the continuing power of the Keidanren. He believes that industry still leads government on industrial policy and that on the macroeconomy there is the capacity for consensus. "There are sharper divisions than in the past on things like the exchange rate. But what is happening is that the decisions on these matters are being postponed until the pressure builds up sufficiently for the inevitable losers to come round."

Internally, the Keidanren can be expected to change. The power structure is still heavily weighted towards heavy industry, and in particular towards the now declining steel industry.

The major electronics industry has only climbed to the higher echelons fairly recently, with Mr Akio Morita, chairman and chief executive of Sony, being made a vice chairman. Banks and insurance companies are fairly well represented, but the newer service sectors, like software and retailing, are much less in evidence.

The CBI has also had to expand its membership beyond its traditional industrial base into banking, financial services and the professions. In fact, it has probably widened its membership more than the Keidanren - the result of the much more rapid shift away from manufacturing in the British economy than in Japan.

The relationship between government and industry in Japan relies on both sectors being able to give to the other. That has never been the case in Britain. The CBI has delivered - on price restraint in the 1970s and helping to get the Manpower Services Commission up and running in the 1980s. But it has been erratic. Too often, it has been cast in the role of the asker.

But in the Keidanren, too, changes lie ahead as the financial companies become relatively more important and industry shifts more and more of its activities beyond Japanese shores.

RAND MINES LIMITED

From the Statement by the Chairman D T Watt, for the year ended 30 September 1987

THE GROUP IS IN A SOUND POSITION TO SECURE FUTURE GROWTH IN SCOPE, QUALITY AND MAGNITUDE OF EARNINGS.

Overview

The loss of substantial revenue mainly as a result of the imposition of sanctions has led to an inevitable rationalisation of mining operations at several of the Group's coal mines and consequently, over 800 jobs have been destroyed. Regrettably, instead of encouraging reform, the sanctions campaign has prejudiced the very people who were supposed to have benefited from the sanctions.

The developments now taking place in the Group will have a significant impact on the company's and the Group's future earnings, and will lead to the creation of some 20,000 new jobs.

The new projects now in the development phase will contribute to the growth of the Group and will ensure that future earnings will be more broadly based and of higher quality.

In a year of considerable difficulty and uncertainty, the results of operations of the Group were satisfactory and considerably better than had been expected when the interim results were announced.

Results at a glance	1987 R million	1986 R million
Turnover	**759,6**	787,2
Profit before taxation	**230,7**	281,9
Profit attributable to shareholders	**125,2**	134,2
Total assets	**1 839,7**	1 653,8
	Cents	Cents
Earnings per share	**1 117**	1 197
Dividends per share	**435**	425
Dividend cover (times)	**2,57**	2,82
Net asset value per share (includes listed investments at market value)	**11 273**	8 728

Housing

The Group has for many years been opposed to restrictions which compel black workers to live apart from their families while employed on the mines. The Group has thus embarked upon a completely new housing scheme for all employees below senior managerial level on the open cast coal mining operations in the eastern Transvaal. It is designed to give mine employees the same freedom of choice of home ownership and housing as employees in other sectors of private enterprise enjoy. Eventually we hope to extend this scheme to employees on all mines in the Group.

Industrial Relations

The three week long miners' strike called by the National Union of Mineworkers in August, the biggest strike in the country's history, was notable for its high cost to employers and to employees in terms of wages, violence and loss of life. In the final analysis, the gains made by the union were insignificant by comparison with the hardship suffered by its members.

Prospects

The Group's earnings for 1988 should closely approximate those for the year just ended. Further, the Group is in a sound position to advance with its many new projects, and thereby secure future growth in scope, quality and magnitude of earnings!

If sufficient progress is made in dealing with socio-political reform to ensure the return of foreign investment, the South African economy could make significant strides in the years ahead.

Johannesburg
23 November 1987

(Incorporated in the Republic of South Africa) Registration No. 01/00656/06.

Member of the Barlow Rand Group

RAND MINES

BREAKING NEW GROUND EVERY DAY.

APPOINTMENTS

Finance chief at Heron International

HERON INTERNATIONAL has made the following appointments: **Mr Lance Trevellyan,** formerly head of asset and liability management at Midland Bank and a director of Samuel Montagu, as group director designate of finance; **Mr Peter Court,** who was chief executive of Chartergroup, as deputy director, financial operations; **Mr Michael Torrance,** former Courage Group taxation manager, as director of taxation; **Mr Leslie Woodcock,** who moves from Heron Motor Group to become managing director designate at Suzuki GB Cars; **Mr James Mackevoy,** previously finance director of International City Holdings, as finance director of Heron Property Corporation; and **Mr Tom Haines,** who takes over the new position of finance director, European property operations.

★

ALPHA-NUMERIC SYSTEMS has appointed **Mr Michael J. Smith** to the new post of group managing director. He joins from Avery International, where he was corporate officer and vice president, international converting, machinery operations and office products divisions.

★

Mr James Riley-Pitt has joined CREDITO ITALIANO INTERNATIONAL, London, UK merchant banking arm of the Credito Italiano group, as head of mergers and acquisitions, with special responsibility for Italy-related cross-border transactions.

★

Mr Mike Rigby has been appointed deputy managing director of the Window Group, part of THURGAR BARDEX. He was marketing director for the group.

★

Mr Dudley C. Pound has been appointed managing director of SILCOCK EXPRESS, part of Silcock Express Holdings Group.

★

Mr Peter Swift has been appointed director of the sales consulting division of GLENDINNING ASSOCIATES INTERNATIONAL.

★

From January 1 **Mr R.R. Courtney,** assistant general manager and chief manager, London branch, State Bank of New South Wales, and **Mr J. Wooders** have been appointed chairman and secretary respectively of THE ASSOCIATED AUSTRALSIAN BANKS IN LONDON.

★

Mr John Miller has been appointed finance director of REED INTERNATIONAL'S paper and packaging interests in the UK. **Mr David Buttfield** will become financial controller. Mr Miller was assistant director of commercial affairs at Reed International. Mr Buttfield was finance director of the European paper operating group.

★

HAWKER SIDDELEY GROUP has made the following appointments in subsidiary companies from January 1. **Mr R.P. Hampson** becomes chairman of Brush Eelectrical Machines; Brush Switchgear; South Wales Switchgear; Hawker Siddeley Switchgear Pty; Brush Transformers; Hawker Siddeley Power Transformers; Hawker Siddeley Electric Africa (Pty); and South Wales Electric (Private). Following the retirement of **Mr Michael Parkinson** as chairman of Crompton Parkinson, **Mr B.G. Shoosmith** is appointed chairman and managing director. **Mr W.M.M. Petrie** is made managing director of Brush Electrical Machines.

★

The FALCON GROUP has made the following appointments: **Mr Allan Rosengreen** becomes chairman and chief executive; **Mr Julian P. Telling,** managing director and financial director; **Mr John Gammon,** group secretary (director of administration); **Mr Stephen N. White,** investments director, and **Mr Stephen Haney,** marketing and sales director.

★

Mr Jeremy Bullmore will become a non-executive director of the WPP GROUP from January 1. He retires as chairman of J. Walter Thompson London at the end of this year.

★

Mr David Bell, deputy managing director of the cables division of DELTA GROUP, becomes managing director of the division from January 1 when **Mr Ron Ludwick** is promoted to executive chairman.

★

Mr Tony Arrowsmith has been appointed group chief executive of the ELLIS GROUP. He has been on the main board since 1980.

★

Mr Alf Chisholm has been appointed managing director of TRINITY HOUSE FINANCE - part of the home electronics division of Thorn EMI. The company provides credit finance to customers of sister company Rumbelows.

★

Mr Peter Laing is to join CHARTERHOUSE VENTURE FUND as investment manager with responsibility for biotechnology and healthcare. He was an assistant director of N.M.Rothschild Asset Management.

★

Mr Derek Stubbs has been appointed vice-president of MINERVA SECURITIES INC., a new wholly-owned subsidiary of Cresvale Partners SA, with responsibility for marketing and administration in Europe and the UK. Minerva is based in New York, but Mr Stubbs will be based in London. He was a vice-president with Citibank NA.

★

Mr Ian Landgrebe has joined THORN LIGHTING as business development manager in the international division, following a period of secondment from the National Economic Development Office.

CONTRACTS

Lengthening a ferry

HALL RUSSELL has a further contract with the P and O Group following its conversion of the MV *St.Sunniva* for P and O Ferries. The order is for lengthening and upgrading the MV *Buffalo* which will operate on the UK/Dublin route through Pandoro, a P and O subsidiary.

The work will cost around £5m and involves construction of an additional section of hull which will be inserted in the vessel to provide extra accommodation and facilities for "driver-accompanied" heavy vehicles.

This order is seen as complementary to that involved in the recently announced contract for the replacement for the RMS *St.Helena* as delivery of MV *Buffalo* is scheduled for the end of next March, and steelwork on the replacement vessel will commence shortly thereafter.

Radios for fire brigade

STORNO, Camberley, has won a contract worth £500,000 from Surrey County Council to instal a radio control system for Surrey Fire Brigade.

The contract includes control room equipment at Surrey Fire Brigade HQ in Reigate as well as base stations throughout the county, mobile radiotelephones for fire tenders and manpack and portable radio equipment for fireground communications.

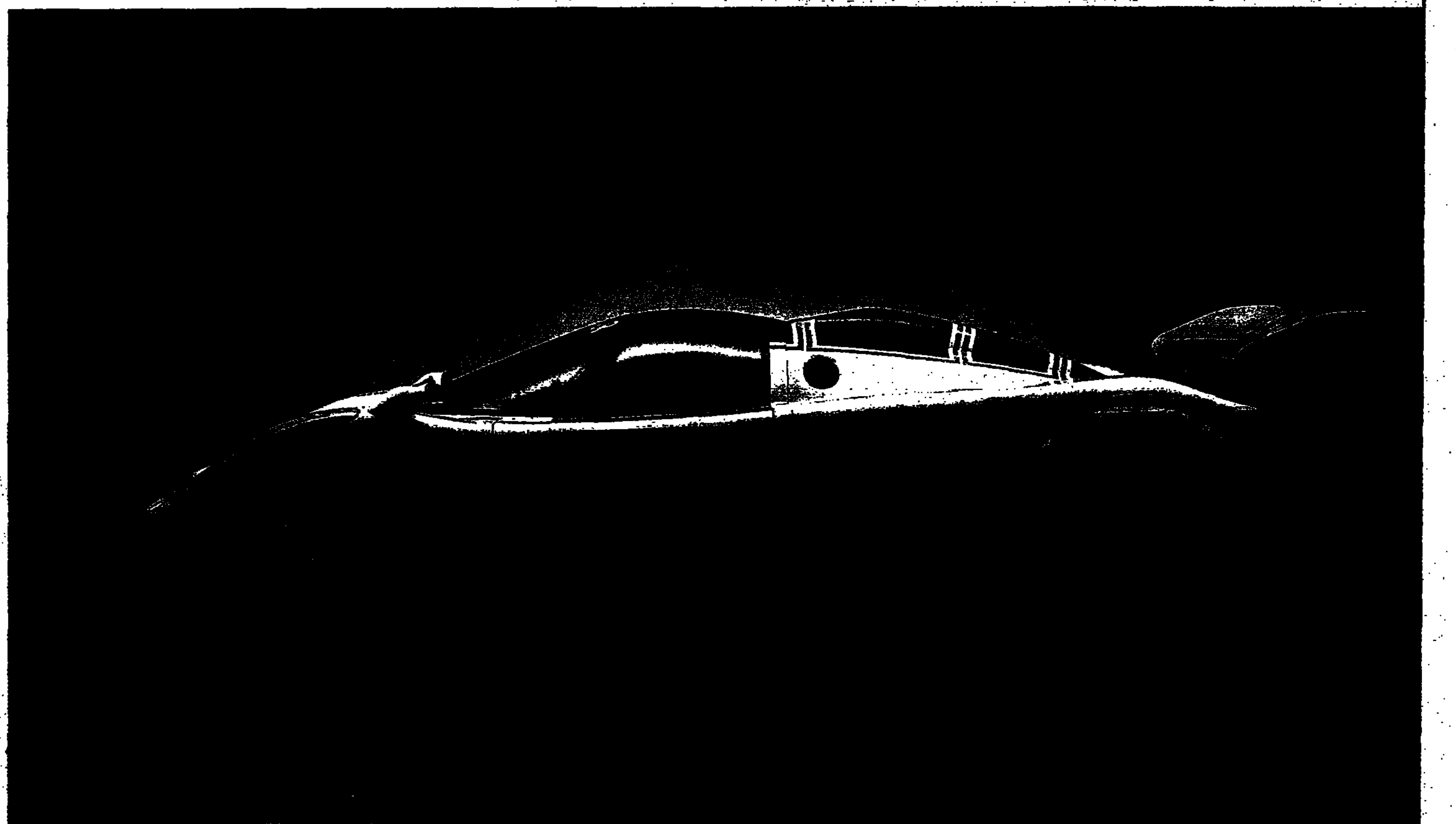
The mobile radiotelephones have the 'Silent Messenger' facility. This enables the operator to receive alpha-numeric messages over the radio via silent digital signals. Each radiotelephone has its own scrolling visual display, 8K memory store and numeric keypad. The advantage is that transmissions can be sent faster and more accurately than is possible with speech and instructions can be recalled from the radio memory.

Stansted Airport radar

The Civil Aviation Authority has awarded **COSSOR** a contract to supply an approach radar system for Stansted Airport.

Cossor will be supplying four 16in rasterscan displays and two data processing units which, with training and spares, amount to a value of over £300,000. The systems will be installed next month.

The 1500 line rasterscan display is the latest generation in Cossor's display technology, giving a clearer, sharper picture and being able to operate in daylight conditions. Cossor has already installed four at Stansted which are used in the control of Southern North Sea helicopter traffic. The four new displays will be situated in the same control room and will be able to accept both primary, radar and secondary surveillance radar



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New issue — 22nd October, 1987

U.S. $100,000,000

AT&T Credit Corporation

9¼ per cent. Notes due 1990 with 100,000 Gold Warrants

Issue Price 112.75 per cent.

Union Bank of Switzerland (Securities) Limited

Banque Indosuez
Crédit Lyonnais
Credit Suisse First Boston Limited
Shearson Lehman Brothers International
Banque Bruxelles Lambert S.A.
Banque Paribas Capital Markets Limited
Commerzbank Aktiengesellschaft
Deutsche Bank Capital Markets Limited
Dominion Securities Inc.
Goldman Sachs International Corp.
Morgan Stanley International
Salomon Brothers International Limited
Swiss Bank Corporation International Limited

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New issue — 15th October, 1987

Ford

U.S. $200,000,000

Ford Motor Credit Company

9⅜% Notes due October 15, 1990

Issue Price 101¼ per cent.

Union Bank of Switzerland (Securities) Limited

Citicorp Investment Bank Limited
Commerzbank Aktiengesellschaft
Goldman Sachs International Corp.
Shearson Lehman Brothers International
Banque Bruxelles Lambert S.A.
Banque Internationale à Luxembourg S.A.
BNP Capital Markets Limited
S.G. Warburg Securities

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New issue — 20th October, 1987

Can. $90,000,000

Xerox Canada Finance Inc.

(Incorporated with limited liability in Canada)

11⅜ per cent. Debentures due 1992

Issue Price 101⅜ per cent.

Union Bank of Switzerland (Securities) Limited

Deutsche Bank Capital Markets Limited
McLeod Young Weir International Limited
Société Générale
Wood Gundy Inc.
Bank of Montreal Capital Markets Limited
Banque Bruxelles Lambert S.A.
Banque Internationale à Luxembourg S.A.
Chase Investment Bank
CIBC Capital Markets
Citicorp Investment Bank Limited
Commerzbank Aktiengesellschaft
Crédit Commercial de France
Dominion Securities Inc.
Generale Bank
Goldman Sachs International Corp.
The Nikko Securities Co., (Europe) Ltd.
Nomura International Limited
Salomon Brothers International Limited
Swiss Bank Corporation International Limited

This announcement appears as a matter of record only.

New issue — 1st December, 1987

IMI BANK INTERNATIONAL

U.S. $200,000,000

9½ per cent. Guaranteed Notes due 1989

unconditionally guaranteed by

ISTITUTO MOBILIARE ITALIANO

Issue Price 101 per cent.

Union Bank of Switzerland (Securities) Limited

Bankers Trust International Limited
Crédit Lyonnais
Deutsche Bank Capital Markets Limited
Goldman Sachs International Corp.
IBJ International Limited
IMI Capital Markets (UK) Ltd
Morgan Guaranty Ltd
Nomura International Limited
Banca del Gottardo
Banca Manusardi & C.
Banca Nazionale del Lavoro
Banque Bruxelles Lambert S.A.
BNP Capital Markets Limited
BSI (Overseas) Ltd.
Crédit Commercial de France
Credit Suisse First Boston Limited
Daiwa Europe Limited
Dresdner Bank Aktiengesellschaft
Euromobiliare Limited
Leu Securities Limited
Mitsubishi Finance International Limited
Morgan Stanley International
The Nikko Securities Co., (Europe) Ltd.
S.G. Warburg Securities
Wood Gundy Inc.
Yamaichi International (Europe) Limited
Yasuda Trust Europe Limited

Amper: plugging into a more international network

David White reports on the ambitions of the Spanish telecommunications company

WHEN Antonio Lopez left a top administrative job at Spanish Television four years ago to go into the manufacturing side of the telecommunications industry, he found that the company of which he was chairman had no export director. Nor had it ever produced foreign language catalogues.

Amper's staple activity is telephone terminals. It is only now beginning to launch its products under its own name outside Spain. But in a sector which has always been, and remains, one of the most closed to international competition, it is out to make its presence felt.

Although extremely worried about the impact Japanese and Asian producers could have on the industry in Europe and the US, Amper is enthusiastic about the prospect of seeing trade barriers disappear inside the EC.

"We are not Siemens or Philips, but of all the companies in the sector we're possibly the one with most ambitions in the medium term," claims Jesus Banegas, Amper's director for corporate development.

The new management that came in with Lopez was part of a resurrection carried out by Telefonica, the semi-state telephone company. Telefonica came to Amper's rescue, taking it over and recapitalising it before floating it successfully on the stock market last year and selling to it some of its own specialised interests. Telefonica's holding in the company has been cut back to 15 per cent.

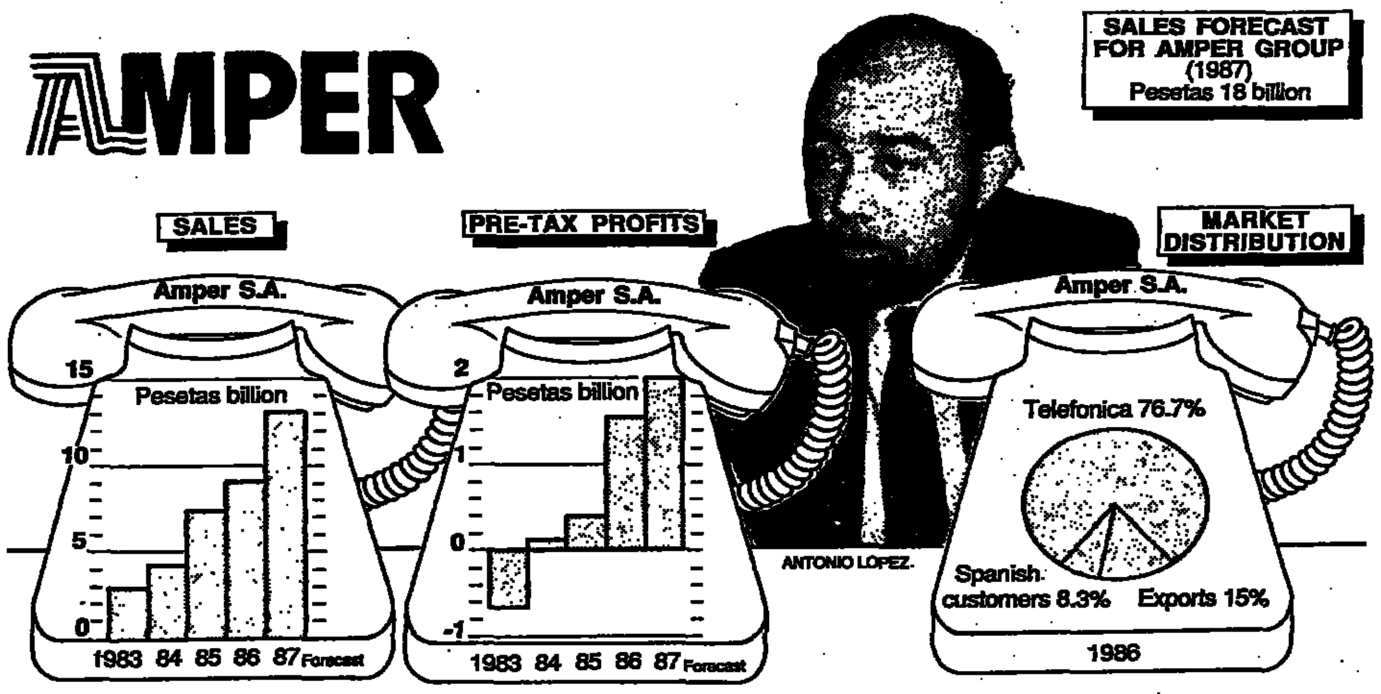
In the past two years, Amper has developed a new strategy for exports, the sale of technology and the creation of stable footholds in the main European community markets.

"In terms of costs, Spain has nothing to fear from the European market. But in terms of marketing, we're the worst in Europe," says Lopez, a small 45-year-old with a solid technical background in telecommunications.

Imminent liberalisation of the terminals end of the market in Spain will lose Amper a share of its business from Telefonica, which currently accounts for 75 per cent of all its sales. Lopez aims to compensate in two ways, seeking openings in Europe and taking further advantage of the captive market where it exists in Spain.

"It's not a free market in any instance," Lopez says. "Let's make no pretence."

Recent acquisitions have added interests in areas such as packet data switching and payphones. Through an alliance with APT - the joint company formed by AT&T and Philips - it has also agreed to share responsibility for part of the redundant workforce of Marconi Espanola, a former loss-making subsidiary of ITT, with the promise of obtaining in exchange a new toe-hold in the public telecom sector.



ANTONIO LOPEZ.

European ambitions are dependent on a successful struggle through the obstacle course of national norms. Up to now, Lopez admits, Amper's exports were hardly worth talking about - around 15-20 per cent of sales in a company which in 1983 had total turnover of less than Pta3bn ($26m) a year. The proportion has not changed, but total annual sales have multiplied to about Pta13bn.

Amper's main foreign market - followed by Latin American clients such as Uruguay and Mexico - is West Germany, where it has been providing telephones developed exclusively for Siemens and sold under the Siemens name. It wants to maintain this co-operation, but, says Banegas, "we can't leave it completely in siemens' hands." The company, which produces its own components, has started to sell hybrid circuits to German clients and is negotiating Bundespost approval for a mini-pabx and a desk-top push-button directory.

It is now beginning its first advertising campaign to promote its corporate image abroad.

The question, Banegas says, is not whether to move into the main EC countries but how and when.

The company has taken different approaches to different markets. In West Germany, where it is already established and where it considers it knows the terrain, it has set up its own sales subsidiary. Through it, Amper hopes to sell videotex terminals which, according to Lopez, it can produce at less than half the cost of manufacture in Germany, achieved mainly through its lower labour costs).

target europe
Amper

"In terms of costs Spain has nothing to fear from the European market. But in terms of marketing, we're the worst in Europe"

A sales office has also been set up in Portugal.

In Italy, by contrast, it has chosen to rely on Olivetti, which has just set up a joint venture, called Olamtel, with Amper, geared to the Spanish market. In exchange, Olivetti is due to use its commercial network to help the Spanish company in the Italian market. Making allowance for the big difference in size, Lopez says, the two companies are complementary. "Olivetti is an office computer company getting into communications. We are a telecommunications company getting into office electronics."

In France, considered the most difficult EC market to penetrate for companies without a French manufacturing base, Amper is using a French bank as an intermediary to negotiate for direct participation in a local company, Teletechnique, which is linked to the Spie-Batignolles group.

In Britain, regarded as the most open market, Amper is also looking, with the help of a merchant bank, for a partnership agreement "somewhere between the Italian and French model," to upgrade its current low-scale distribution operation. The company has high hopes in Britain for its range of telephones with automatic dialling facilities.

The other side of Amper's new commercial strategy has been to complete its catalogues in order to offer a full range of products. In the past its range has been largely determined by the way Telefonica chose to divide the market, with one, or more usually two, suppliers in each segment: different kinds of telephones, for instance.

While keeping its European manufacturing operations in Spain - for a company of Amper's size, says Lopez, dispersing production would be suicidal - Amper has gone into two industrial ventures further afield: a telephone factory in the Soviet Union currently under construction and due to be half-owned by Amper, and a stake in a Puerto Rico company employing Amper technology for making terminals. It regards this as a potential springboard for the US, where it also envisages partnerships later on.

Marketing is in itself something rather new at Amper. When Lopez arrived, he says, "the whole commercial department was two people." It now has about 70, and is due to have 100 by the end of the year. Foreign language training has only started in the last three years, with free English and German courses available.

In a country with no multinational companies of its own, Amper has been looking for people with multinational experience. It had, for instance, difficulty finding technicians for the Soviet venture.

"What nationality they are doesn't matter to me," Lopez says, even though salary expectations may cause problems with respect to current employees. "Compared with the problems we have, they are small ones."

The West German branch, for instance, is headed by a German. The company still has only a handful of foreigners on its staff - about 15 - but is now actively trying to recruit engineers from the UK. It is not a question of the quality of Spanish engineers, Lopez says. There are just not enough of them.

The big factor for the company in the context of European liberalisation is having sufficient time to adapt before all barriers disappear. It is at a disadvantage compared with its European competitors in terms of economies of scale, and needs to reduce this difference enough to be able to offset it by low wage costs. With a home market still safe - although not a monopoly, except in telephone answering machines - recent expansion has been rapid. In the first half of this year sales for the parent company were up 38 per cent and profits up 172 per cent. In components it has already reached sufficient size for overall costs to be "not much different" from those of competitors, Lopez claims.

The prospect of competition at home and abroad has brought a change in Amper's policy towards technology. So far it has relied entirely on its own - a rare example in Spain's industrial firmament. But it will soon be incorporating outside technology for portable computers under agreements with Parcon of Sweden and Exelvision of France. Its one rigid condition is that it should gain new market openings in return, and not just buy licences. "The negotiation has to have two directions," Lopez says.

The R&D division, renamed technology, has been given a redefined brief to buy, sell, exchange and make its own profit. "Corporate development" - Banegas's task - is another of Lopez's innovations, and is very much oriented towards its foreign presence.

In the short term Amper can expect to continue obtaining its main impetus from the rapidly-expanding Spanish market. But in the next phase, Banegas says, growth will have to move abroad.

Previous articles in this series appeared on October 14, 21, 28, November 2, 13, 18, 25 and December 2.

Where partnership is no soft soap

Christopher Parkes reports on Colgate-Palmolive's global alliances

THE MAN who holds all three top posts in a leading multinational company may not at first seem ideally qualified to extol the merits of "partnership" as a management tool. But the chairman, president and chief executive of Colgate-Palmolive is a devoted practitioner as well as a committed advocate.

Reuben Mark ticks off the evidence of the success of the co-operative approach with a familiarity born of many hours spreading his message.

His openness, which contrasts vividly with the shutters-up approach of competitors Procter & Gamble and Unilever, is a crucial part of his partnership philosophy and has won him allies in soap works and broking houses the world over.

But it is more than theory or high ideal. Practical partnerships are in force throughout the group. Colgate is just finishing a $47m detergents factory in the US inside which a supplier's workforce will manufacture bottles on its own production line.

In September, a 50-50 joint venture with Henkel of West Germany in Cotelle, a French company, filled several gaps in Colgate's product portfolio in France. The US company took over Cotelle's bleaches, soaps and household cleaners, while the Germans were content with dishwasher detergents and fabric softeners.

The carve-up also gave Colgate access to new packaging technology - squashy plastic pouches for bleach, etc - which it plans to exploit in other markets.

"You will see more of this," he says. "Individual gaps in product lines are not easy to rectify in the short term. Our French company now has a good strategic balance. But in Britain and Germany we still don't have enough breadth or critical mass."

Colgate's way of filling the gaps is becoming difficult as the supply of eligible targets tightens.

It already has a manufacturing partnership in Turkey, markets American Home Products lines alongside its own in Scandinavia, Portugal and the Far East, and has a joint venture in North Carolina, where its non-woven fabrics division is linked with Freudenberg of West Germany.

Other alliances include a novel connection with advertising companies Young and Rubicam and Foote Cone and Belding, which promote all Colgate products worldwide. The agencies run separate departments devoted to Colgate in which staff own Colgate stock.

"The conventional agency-client relationship assumes that fear is a better motivator than love. With us the agencies' contracts are not on the line for everything they do," Mark says.

The group has also entered into partnership with its own employees. Some 17,000 of the US workforce hold stock or options, and workers at all levels worldwide are offered incentives in a sophisticated "suggestion box" scheme, known as the "You can make a difference award."

An idea from France, removing the handles on Ajax bottles to reduce materials and manufacturing costs, has made a difference of almost $3m.

Performance-related pay schemes run group-wide. The rigid old bonus programme, paid willy-nilly, has been replaced with one which offers some managers up to 50 per cent of salary for meeting specific objectives, for boosting volumes and cranking up profit. Humbler workers, once routinely given an extra week's pay at Christmas, now get nothing extra for simply doing the job, and up to two weeks' bonus for a good performance.

A good year overseas in 1986, the first year of the new scheme, padded European pay packets. "They all got a substantial taste of what's in store," Mark says. In that year volume grew 6.1 per cent, compared with 4.1 per cent in 1985. This year, Mark reckons, the figure will be more than 8 per cent.

However, the number of people eligible for these benefits is shrinking. Colgate recently announced 600 job losses in the 5,000-strong management corps. Apart from savings of up to $35m a year, Mark is eager to point out that the cuts will also serve his partnership policy. Stripping out layers of management helps foster a more entrepreneurial approach throughout the business.

More responsibility has been shifted down from the top management to three global product groups - oral, body and fabric care. "Individual managers can operate independently as long as they keep in close touch with these groups. The manager makes his own decisions...it's not dissimilar from the way Unilever works," Mark says.

One difference, however, is that his Anglo-Dutch rival has a special committee, on which three "partners" share the top jobs, while Mark still has them all to himself.

Giselle/Covent Garden

Clement Crisp

Bryony Brind, making her debut as Giselle on Saturday afternoon, showed a natural sympathy for the peasant girl of the first act which brought unexpected and delightful insights into the character.

She is, from her very first appearance, a Wordsworthian figure, all delicate insecurity and shyness. Her love for the supposed Loys (Jay Jolley) is everything, and it is expressed with a beguiling sincerity and absence of stress: as she sits on the bench after the first pangs from her heart have warned of her illness, she extends her hands in a gesture both loving and tentative towards Loys, who kneels at her feet.

It is a moment absolutely revealing, beautifully judged, and seems to me characteristic of the real potential of Miss Brind's portrayal.

Here is, of course, a very first reading, and the pacing of the mad-scene – whose terrors this Giselle manages very well – was uncertain: there was too much suffering *too* soon, as is usual with debutante interpretations. But as an initial sketch for what I *hope* will become a *full-length* portrait, we saw a convincingly personal view of the first act, compounded of insecurities and trust, a passion for dance and a passion for Loys.

The second act was conventionally serene in dance, and emotionally very proper in the English fashion. I wish, though, our local dancers might comprehend how Russian ballerinas understand the whole span of the act, of the ballet: how Makarova linked the two halves of Giselle's identity as girl and wili, how Semenyaka mirrors the crescendo of feeling in Act 1 with a no less powerful onward impulse in Act 2. Then the tragedy might reach its proper resolution instead of fading into conventional dance pietisms as the lovers finally part.

About this pleasing debut, though, one technical comment must be made. Miss Brind's feet seem to me less strong than heretofore, and her shoes look as if they had been found abandoned on a tennis court.

The old ballets demand something more pristine and frankly dazzling in point-work if their dance detail is to be as well met as their dramatic challenge.

About the rest of the performance, I record that Jay Jolley is an attentive Albrecht, Ashley Page a notably sensitive Hilarion, and that in the first act pas de six, the upward spring and clarity of Errol Pickford's dancing is a continuing and exhilarating pleasure.

Vladimir Mikulka/Wigmore Hall

Andrew Clements

The guitar world seems almost self-contained, sealed off from the rest of concert life. Its audiences are specialised and enthusiastic, and its stars - with one or two household exceptions - are local heroes, faithfully supported.

One such celebrity is the Czech player Vladimir Mikulka, a regular visitor now to the Wigmore Hall, whose recital on Friday attracted a sizeable and appreciative turn-out.

Mikulka is an immensely accomplished, thoughtful instrumentalist; he commands a carefully varied range of tone colour, a clean and prodigious technique, and carries off everything he does with elegance and polish.

His programme was almost standard guitar-recital fare - the mixture of bespoke works and transcriptions, with the statutory Spanish group to close - but one in which Mikulka managed to discover points of interest, interpretative niceties, in almost everything.

Almost everything; the qualification is important, for in a change of programme announced with great charm from the platform a sonatina by Moreno-Torroba was replaced by the first British performance of *Porcelain Tower* by the Soviet Nikita Koshkin, who is evidently a regular collaborator of Mikulka's.

It proved to be as vapid a piece of new music as I have had the misfortune to encounter for a very long time, structurally naive and melodically banal.

Its performance was greeted rapturously, suggesting either that the norm for new guitar works is disturbingly low, or that the sheer technical adroitness with which Mikulka presented it was in itself worthy of praise.

That was undeniably true, but his qualities had already been displayed far more satisfyingly in an unpretentious suite by Jelinek and a transcription of Bach's G minor violin sonata, which was distinguished by the clarity and articulation of the textures, and the sensible expressiveness with which he informed every phrase.

Istomin/Elizabeth Hall

Paul Driver

Eugene Istomin is a pianist of high pedigree - he has appeared as soloist with the most venerable conductors, and he was the founder-pianist of the celebrated Istomin-Stern-Rose Trio, but on his Thursday showing at the Queen Elizabeth Hall he is not a solo recitalist of any great personal magnetism or poetic power.

He chose an unpromising programme, so the private-party sized audience which it nevertheless drew to the hall on a cold night cannot have been too disappointed.

The first item, a three-movement Sonata in A by Haydn was a pleasant enough aperitif, put across with fresh fingers and a sometimes noticeably baroque stylistic emphasis. But the F sharp minor first sonata by Schumann (Opus 11), one of his most unyielding, clangorous and dutiful pieces of piano music, was not calculated to endear us, nor was Istomin's performance of it designed to soften its hard edges or squeeze out any hidden poetry lurking between the ivories.

He made the crude little quasi-Russian dotted theme which dominates the opening allegro in no way bewitchingly prevalent, and though he despatched the brief aria quaintly and set a bright, bucked-up tone in the scherzo, he could not do much with the pounding finale except plod through it, which he did.

At the very least Istomin is a workmanly player - and his account of Debussy's *Images* Book I coming after the Schumann in brutal contrast rose to considerable heights through sheer technical accomplishment.

But he seems fatally attracted to the bombastic: a group of what seemed like pre-encores - four uninteresting short pieces by Rakhmaninov - led inexorably back to big bunches of noisy notes in the Etude-Tableau Op 39 No 9.

One felt that Istomin would have made a far better impression had he simply played us Debussy.

Architecture/Colin Amery

Antibody for aesthetic idleness

There has been a very considerable and significant reaction to the speech which the Prince of Wales's delivered at the Mansion House last week. It seemed to strike a chord not just with the media, but with the man in the street.

The Prince was right to concentrate our minds, now that the badly built buildings of the 1960's have proved ugly and inadequate, on the quite extraordinary second chance that exists – not just in the City of London but in all our towns and cities – to remove these gruesome monuments.

He was not calling for a return to styles of the past but pointing out that at this moment there is a real chance, that must be seized by planners, architects and developers to show, "that pleasure and delight are indeed returning to architecture after their long exile."

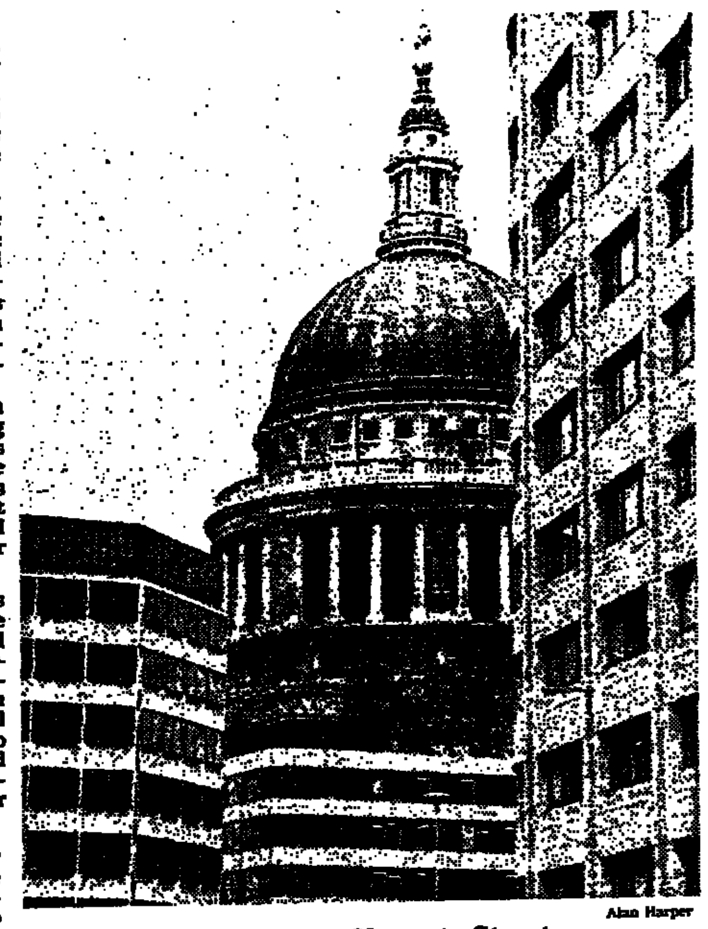
It would be sad if the Prince's speech simply polarised the debate between modernists and anti-modernists, because underlying all that he said is a *cri-de-coeur* for a vigorous resumption of creativity and architectural quality. Prince Charles also expressed his heartfelt and instinctive feeling that most people do not want "machines for living (or working) in."

To concentrate on Paternoster Square was appropriate, as he was speaking in the City of London. It is certainly opportune to reconsider the setting of St Paul's, since there has been a major international competition for the site, organised by a powerful commercial consortium: this competition and selection process was held during the last two months of last year and the first half of this year.

I have, at once, to declare an interest. I was one of a panel of eight assessors appointed by the Paternoster Consortium. In that capacity I was invited, with my colleagues, to suggest names of architects for the invited short list and to assess the entries of the seven architects asked to make a final presentation. We were also asked to look at aspects of the brief.

It is important to point out, and I have done so before in these columns, that the competition was to find a firm of architects or planners to prepare a Master Plan for the entire area to the North East of the cathedral.

The final selection of Arup Associates to draw up a plan has recently been made, but it does not follow that even the outline submission that the jury saw in the summer will be followed. We chose a firm, and not a design, and that is why no proposals have yet been published.



Alan Harper

St Paul's from Newgate Street

The Paternoster Consortium issued a press statement after the Prince of Wales's speech, making it clear that they had only asked for conceptual ideas and not a design. However there is a major area of disagreement between them and the Prince. Their brief, which many architect entrants questioned, asks for a million square feet of offices: a more sensible figure on that site would be about half that amount. The Prince was not being unrealistic when he begged for any new plan in this area not to be based on "overriding commercial considerations."

Certainly the brief and indeed the idea of the competition was a product of the heady Big Bang days, and the demand for big dealing rooms (which have always been something of an American cultural phenomenon) is now declining in London. There is plenty of evidence that areas like Covent Garden, full of character and developed on a small scale, are also highly profitable, and the area around Paternoster should be developed in a way that is suitable to its proximity to the cathedral.

I went to see Peter Foggo and Sir Philip Dowson of Arup Associates last week to see exactly what they are planning for this crucial site. They are at the stage of detailed analysis and consultation, and would like it to be known, as would project manager Mr Stuart Lipton, that a Standing Committee is being set up to monitor the progress of new plans.

This will consist of representatives of English Heritage, The City Corporation, the Royal Fine Art Commission and the Dean and Chapter of St Paul's. One of the duties of this new body is to ensure that the public will be able to be kept informed: exhibitions will be arranged, the first exhibition will show the conceptual ideas of the the unsuccessful entrants to the competition. There should also be an exhibition about the history of the site, and the various approaches to the surroundings of St Paul's since the days of Wren.

No good building was ever designed by a committee, and that probably applies to urban plans too. Sir Christopher Wren himself suffered sorely from interference when he was designing St Paul's, and commercial considerations ruined any likelihood of his Baroque plan for the City becoming a reality.

What Paternoster needs is one brilliant patron – not just a consortium of financiers or dealers who may sell their interests at the drop of a hat or the word of a Prince. Mr Stuart Lipton has shown his mettle on a massive scale at Broadgate, and he could be the kind of patron who could make Paternoster something quite remarkable. He understands the follies of our planning system, and I would guess that this is just the moment in his career for him to take a stand for quality and originality and younger talent. Can he do it ?

Before he answers that question, he should let Arup Associates bring together some of the best thinkers and theorists to philosophise a bit about the future of areas like Paternoster next to great monuments and in need of rebuilding. It would also be a timely moment to ask some artists to think about the problem; and some younger and less well known architects. The Prince of Wales gave us his own vision at the Mansion House, and although it was in general terms it offered some good leads.

Paternoster is too important to be left to architects alone. It would pay to look closely at the Hawksmoor proposals – building low but close to the cathedral on all sides, with handsome colonnades. It would also pay to look at new uses for parts of the area: it needs more public and civic buildings to give St Paul's the sense it lacks, of being a sacred temple in the heart of a living city.

Why don't the City Corporation think seriously of building the new art gallery proposed for a site by Guildhall on a more public site near the cathedral? A hotel, flats and even new monuments would be suitable for this area: a desert of only offices is not the answer.

The Prince of Wales called for better planning, and he is right. It is not more planning we want – forty years of controls and committees has not produced more beautiful cities or better buildings. It is the disease of aesthetic idleness that we do have to tackle. We all need stern critics, but in the end it is a change of heart that is necessary. It is time to stop talking of the need for improvements, and a perfect moment to start making them.

Lyle / Lyric, Hammersmith

Michael Coveney

Something of a disaster has landed on the stage of the Lyric, Hammersmith, but not all of it is the fault of Charles Strouse. After all, he only wrote the music, lyrics and story (based on a book by Bernard Waber).

A pitifully thin Friday night house – you could have shot a stag, or perhaps Sheridan Morley, in the front stalls – had to pinch itself in disbelief at the chaos.

The chorus had the brass neck to wave at the audience *before* officially hoving into view. That just about summed up how seriously the director, Peter James, and his cast were taking the task of putting on a musical, and how well the designer, Jenny Tiramani, had arranged her sight lines.

One hardly had the heart to wave back, although a few other gestures did spring to mind.

Lyle is a crocodile found in the bath of a family newly moved to Manhattan from Milwaukee. Ten year old Josh adopts the animal (Tim Flannigan in a wrinkled crocodile skin) and teaches him to hit home runs in baseball. Media fame brings Lyle's former owner, the old vaudevillian Valenti (John Bardon), running to renew their act and strike it rich at Radio City.

The Prevention of Cruelty to Animals league sticks its nose in, and a lady genetics professor wants to advance human knowledge by finding out how much shaving cream can be tolerably smeared on a crocodile's open eye.

Lyle goes missing and Josh follows in search, widening the urban and sociological implications and deepening the similarities of the piece to Strouse's biggest hit of recent years, *Annie*.

Annie had a well-organised libretto by Martin Charnin and a sumptuously efficient production by Mike Nichols. Musicals can only prosper at that level of creative collaboration.

Lyle, it is painfully obvious, is work in progress and urgently requires a production overhaul, half a new score, and a firm decision on whether we are watching an *Annie*-like re-run of a child's urban and emotional displacement, or a show about a crocodile. If, as I suspect, we are to expect both, Mr Strouse may need an analyst even more than he needs a director and a librettist.

The musical idiom is pre-rock jauntiness, notwithstanding a good rap number for Josh and the ghetto vigilantes. The sisters in Leonard Bernstein's *Wonderful Town* never missed Ohio ("Why, oh why, oh why-oh") as much as Josh misses Milwaukee. And Mrs Shaeffer (Belinda Sinclair) has a very fine desperate mother song, dramatic and lyrical, in "I've got to keep busy."

Otherwise, potent scenic expeditions to Radio City and the Algonquin Hotel (the amusingly rhymed and paired clientele includes Arthur Miller and Phyllis Diller, Alan Lerner and Tina Turner) stub their toes on duff choral items.

Boy and croc are happily reunited, but the New York fairytale holds yet another option open, that of a healed father and son relationship. Even more scruffily plotted is the romantic amalgamation of bestial rights campaigner and the scientist, dissolving too neatly the forces of opposition.

So, the Lyric has not repeated its previous happy collaboration with Mr Strouse on *Nightingale*, a much simpler, more exotic undertaking. But at least the composer can now see the considerable possibilities in this musical and take them back to the drawing board.

New Managing Director for Philharmonia

David Whelton has been appointed Managing Director of the Philharmonia Orchestra, with effect from February 1, 1988.

Since 1986 he has been a member of the music staff of the Arts Council concerned with English orchestras, including the four London ones, and the Aldeburgh, Cheltenham and Three Choirs Festivals.

Sponsorship

Coming of age

On Wednesday the Victoria and Albert Museum is the suitably imposing setting for a mammoth party to celebrate ten years of the most public manifestation of the increasingly warm relationship between business and the arts – the Daily Telegraph-ABSA awards.

It was in 1977 that the Telegraph rather bravely agreed to support annual awards for those companies that had made an imaginative contribution to sponsoring the arts.

It was brave because a newspaper cannot expect to get much publicity for its gesture from its competitors in the media. But fortunately it picked a winner.

Nursed by ABSA (the Association for Business Sponsorship of the Arts) business involvement in funding arts events has become the flavour of the decade, with the money invested rising from around £1m to nearer £30m in a year. And on top of direct aid there is the cost of all the parties.

Wednesday's will be the biggest ever. Over eight hundred tongues will be slaked. Business tycoons will be there; artists will be there, some performing in tableaux vivants around the museum; the Prince and Princess of Wales will be there. The grand occasion will celebrate the coming of age of arts sponsorship in the UK.

For some it will be an especially pleasant occasion – they will win prizes in recognition of their support of the arts. If you give a lot of money you can be hopeful of having your generosity acknowledged, so Digital, which has backed dance in a big way, and Mercedez-Benz, which put up £600,000 for an extensive German cultural festival in the spring, should be in with a chance.

But imaginative sponsorships are also applauded. Mont Blanc, the German pen maker which backed an exhibition on the influence of the comic on art, must stand a chance.

Another possible winner is the Allied Irish Bank. It gave generously from limited resources to get the New English Shakespeare Company off the ground, and the artistic success of the company has made it a good buy.

ABSA is obviously favoured by the Government (it takes some of the financial burden of funding the arts from off its shoulders) and Mr Richard Luce, Minister for the Arts, gave the organisation the task of superintending his own Buisness Sponsorship Incentive Scheme, under which new sponsors can get matching cash from the state. But now there has been a confusing development.

So pleased has Mr Luce been with the enthusiasm of companies to fund the arts that he has dragged the Arts Council into the network. In 1988-89 the Council will have £5m earmarked for an incentive scheme under which its clients receieve extra cash if they can bolster their revenues from better box office – or from sponsorship.

This is already confusing companies, both artistic and commercial. Does it downgrade the role of ABSA? How does it fit in with the BSIS scheme? The Arts Council and ABSA should streamline their approaches, soonest.

*

Glasgow may be Miles Better but Bradford's Bouncing Back.The Yorkshire town is using the arts to improve its image and has clasped London Festival Ballet to its bosom.

Having spent millions refurbishing the Alhambra Theatre, Bradford was looking for a product. The ballet company has been a casual visitor for almost forty years and is happy to make it its provincial home, at least for two weeks a year. In return Bradford is sponsoring a new production of *Swan Lake*, choreographed by Natalia Makarova, which is costing £200,000.

The sponsorship potential of local authorities has been neglected. They may well be fickle friends – subject to rate capping and political change – but with their recent discovery of the importance of an artistic reputation in attracting new businesses, there are possibilities for London-based companies in particular to forge links with a provincial city.

Bradford cannot afford to pay fully for Swan Lake: NatWest, which has traditional links with that part of the world, is sharing the cost. It is a natural partner for Festival Ballet, which in the last year has embraced corporate sponsorship with more committment than any other major arts organisation.

The expensive desire of its artistic director, Mr Peter Schaufuss, to mount new productions of all the classic ballets can only be realised if business rallies round. His latest *Nutcracker* was backed by Digital.

But it is in the individual nightly sponsorships that Festival Ballet has broken new ground. This week it is performing *Nutcracker* in Birmingham and every performance will be linked to a company, each paying between £2,500 and £4,000, depending on the package they want.

Perhaps the best promotional idea conceived by Festival Ballet was to advertise for sponsors in the theatre programme of *Serious Money*, the play about Big Bang chicanery attracting a large City audience. It is already negotiating with Household Mortgage Corporation as a result.

In a recent week in Manchester, Digital, BASF, Young Presidents Organisation and Arthur Andersen made up the client list for performances of *Nutcracker*. As well as "buying" the occasion, with an after show party attended by dancers, the companies also pay for seats, above a few complimentaries.

In all Festival Ballet hopes to raise approaching £300,000 from sponsorship this year, and in 1988 expects up to sixty performances, almost a half of the total, to be exploited by companies.

It can be exhausting for the dancers, who are expected to be charming after a performance, but since most of the money raised goes towards paying off a shrinking deficit they do it with a will.

Most arts companies still begrudge sponsors their pound of flesh: at Festival Ballet they claim to cheer every time a new one joins the gang.

*

A possible ABSA prize winner in twelve months time is the Union Bank of Switzerland, perhaps best known in the UK as the new proprietor of Phillips & Drew. It celebrated its 125th anniversary this year, with an international cornucopia of events.

Japan got help for the Red Cross; the US a touring exhibition of paintings by Switzerland's most famous artist, Hodler; and the UK was entertained with eight concerts at the Barbican and the Festival Hall which celebrated another anniversary, sixty years of the cellist Rostropovich. This £80,000 bash (a tremendous bargain) culminated in an evening which brought the entire main board over from Zurich, plus 1,300 guests.

But Union Bank's main contribution to the artistic life of London will be seen in the decoration of its new headquarters, in the City's Broadgate development.

In Switzerland the company spends up to 2 per cent of the cost of any new building on works of art to embellish it. This means a budget for Broadgate of approaching £1m. Some of the biggest names in contemporary art are being considered, with a good chance that a British artist will gain the commission.

Antony Thorncroft

Arts guide

December 4-10

Music

LONDON

Philharmonia Orchestra conducted by Giuseppe Sinopoli with Mariko Senju, violin. Mendelssohn and Bruckner. Royal Festival Hall (Mon) (928 3191).

Alfred Brendel, piano: Schubert. Royal Festival Hall. (Tue).

BBC Symphony Orchestra conducted by Gunter Wand. Mozart and Bruckner, Royal Festival Hall (Wed).

London Mozart Players conducted by Jane Glover, with Cristina Ortiz, piano. Michael Haydn, Haydn, David Matthews and Mozart. Queen Elizabeth Hall (Wed). (928 3191).

English Chamber Orchestra and London Barbican Consort: Vivaldi and Handel, St. John's Smith Square (Wed). (222 1061).

Monteverdi Choir and English Baroque Soloists conducted by John Eliot Gardiner: Purcell. St. John's Smith Square (Thur).

Royal Philharmonic Orchestra conducted by Andre Previn, with Salvatore Accardo: Brahms and Sibelius, Royal Festival Hall (Thur).

Bournemouth Sinfonietta conducted by Roger Norrington with Anthony Rolfe Johnson. Schubert and Britten. Queen Elizabeth Hall (Thur).

PARIS

Montjoie Choir with the young Franco-German Philharmonic conducted by Justus von Websky: Beethoven, Salle Pleyel (Mon). (45630796)

Orchestre National de France and Radio France Choir conducted by Ernest Bour: Varese, Debussy, Roussel, Theatre des Champs Elysees (Mon). (42301516)

Sensational Nightingales and Golden Gate quartet sing negro spirituals and gospel songs at Saint Germain des Press church (Mon). (42771883)

Antibel-Canto: Malipiero, Casella, Pizetti, Respighi, Comedie des Champs Elysees (Mon). (45041215)

Ensemble Orchestral de Paris conducted by Armin Jordan with Edith Mathis, Soprano: Villa Lobos, Bach, Haydn, Mozart, Salle Pleyel (Tue). (45630796).

Orchestre de Paris conducted by Semyon Bychkov, Christine Barbaux, soprano: Haydn, Mozart, Strauss, Salle Pleyel (Wed, Thur). (45630796)

Nouvel Orchestre Philharmonique and Maitrise Radio France conducted by Michel Lasserre de Rozel: Pierne's The Children in Bethlehem, Saint-Germain-des-Pres Church (Thur). (42301516)

NETHERLANDS

Amsterdam Concertgebouw. Bernard Haitink conducts the Concertgebouw Orchestra: Beethoven, Bruckner (Wed, Thur). **Recital Hall.** Artaria Ensemble: Spohr, Beethoven (Tue). The Schonberg Quartet: Zemlinsky, Schonberg (Thur). (71 83 45)

Utrecht, Vredenburg Recital Hall. Prazak String Quartet with Martijn van den Hoek, piano, and Hans Roelofsen, double bass: Beethoven, Schubert (Tue). The Allegri String Quartet, with Rian de Waal, piano, and Rudolf Senn, double bass: Dvorak (Wed). (31 45 44)

TOKYO

Reibo Aoki (shakuhachi). Leading master of the Japanese bamboo flute. Dai-Ichi Seimei Hall, Hibiya (Mon). (941 6016)

Ely Ameling, soprano, with Rudolf Jansen, piano, sings Schumann, Satie, Poulenc. Suntory Hall (Tue). (573 3588)

Barbara Hendricks, sopano, sings Brahms, Faure, Strauss. Tokyo Bunka Kaikan (Tue). (403 8011)

Shinsei Nihon Symphony Orchestra conducted by Reinhard Peters with Keiko Urushihara, violin, Noboru Kamimura, cello and Akiyoshi Sato, piano: Beethoven and Brahms. (Wed) Tokyo Bunka Kaikan. (985 4836)

Barry Tuckwell (horn) with NHK Symphony Orchestra conducted by Berislaw Klobucar: Strauss, Bruckner (Thur), NHK Hall. (465 1780)

Saleroom/Antony Thorncroft

Connoisseur week

With some relief the salerooms turn from the thankless task of selling Impressionist and modern works of art, which seem to be a glut on the market, to offering Old Masters in London this week.

This sector has been left far behind in price terms, by their upstart successors. No Old Master has sold for £10m, at least in the saleroom, while three paintings by Van Gogh have topped this figure in the past nine months. But Impressionists and moderns have become an investment market while Old Masters are still sought by museums and connoisseurs. The Japanese have started to buy but their influence is slight.

The top price is likely to be paid at Christie's: over £400,000 for an allegorical work by the 17th century Italian painter Salvator Rosa, which used to hang at Hatchlands in Surrey. Sotheby's can counter this with a Dutch interior of a woman, with child and servant, by Pieter de Hooch. It is one of six paintings from the collection of the late Rudolf von Gutmann. Sotheby's has a Murillo, "The Vision of St Anthony;" Christie's a Sebastiano del Piombo, a portrait of Pope Clement VII. It is a pity that neither saleroom has a really important work which would test the market.

As Christmas approaches the salerooms become frivolous, reflected at Christie's South Kensington on Friday with an auction of Charlie Chaplin memorabilia. Among the items are an authenticated hat, cane and boots worn during the filming of *The Great Dictator*." The shoes are especially important: Chaplin wore only three pairs during his film career and the other two pairs are lost. They could fetch £15,000.

Much less frivolous is a sale at Sotheby's on December 15th on behalf of PEN. Original manuscripts from Shaw, Hardy, Beerbohm, Pinter, Golding and Stoppard, among others, will be offered, with the money raised spent on campaigns for the release of prisoners of conscience throughout the world. The items can be previewed at Sotheby's tomorrow at 6 in the evening.

Meanwhile Sotheby's and Christie's have decamped to Monte Carlo for a series of the most important sales to be held there for years. What with the Paris auctions of major Impressionists two weeks ago, France, and its environs, is obviously trying to re-establish itself as a force in the international art market, a position which its own restrictive practices threw away in the post-war years.

Sotheby's has had a run of problems with its plans to sell tomorrow one of the most famous manuscripts in French history, Zola's original manuscript of "J'accuse", his impassioned tirade against the persecution of Captain Dreyfus. Legal battles among the owners, Zola's descendents, will not be legally resolved until this afternoon. Whatever happens the French Government has insisted that the document will not leave France, which should reduce its value to less than £500,000.

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One more chance

THE HEADS of government of the Twelve went to Copenhagen knowing what they had to decide, and knowing that the conjuncture of political circumstances was as favourable for taking the decisions in question as it is likely to get. But they still failed to agree. That is unquestionably bad news.

It is bad that the West Germans, and perhaps even the French, have still not faced up to the fact that the only rational way to deal with chronic surpluses of agricultural products is to reduce prices substantially and quickly.

Of course one can use quotas as a temporary expedient, and as a way of sharing the pain of reduced production more or less equitably between farmers - in the case of dairy products this has been done with tolerable success. But quotas are not an acceptable long-term solution for a Community that prides itself on being a market and aims to promote free and fair competition. They belong in an administered economy such as even the Soviet Union is now trying to get away from. They penalise the consumer, who still has to pay an excessive price for his food; and they ensure that any food exported has to be heavily subsidised.

Structural funds

That is why the "stabilisers" proposed by the Commission - and which all member states claim to accept in principle - are such a tremendous improvement on previous attempts at reform. They involve responding to surpluses with price cuts. Of course this will hurt some farmers more than others and it is perfectly legitimate to consider compensating them through "set-aside" or other schemes, so long as these do not reward or encourage continued overproduction. But unless the price cuts are big enough to make continued overproduction uneconomic they will not work; and unless they are triggered automatically they will become the subject of endless wrangles during which the surpluses will continue to build up.

It is bad, though not surprising so long as the agricultural issue remains unresolved, that there is still no agreement on the size and distribution of the increase in structural funds. (The two issues are connected because West Germany and Britain, as the main contributors to the Community budget, are unlikely to loosen their purse strings until the disagreement between them on agriculture is resolved. Britain is unwilling to pay more so long as inefficient farmers benefit, while Germany is unwilling to pay more unless they do.)

It is bad that Italy is still holding out against a gradual switch from value-added to the more equitable gross national product as a basis for assessing member states' contributions to the Community budget.

It is bad that the Community is now going to enter 1988 without any budget at all, scraping by from month to month on the basis of this year's appropriations. Britain will no doubt mind that less than most, but British farmers will suffer along with the rest; and non-agricultural items for things like research and job-training, due to start in 1988, will be held in abeyance. The Community as a whole will lose in both dignity and efficiency.

It is bad, finally, that another attempt to solve all these problems is going to have to be made two months nearer to the French presidential election, and to the provincial elections in Baden-Wurttemberg and Schleswig-Holstein.

National interest

The best one can say is that at least this was a failure without acrimony. For Britain especially it is a relief not to have to take the blame. The agenda was long and complex, and it is not all that surprising that heads of government did not succeed in two days where their agriculture and foreign ministers had failed.

It is only since October that governments have been addressing the package with any real sense of urgency. Perhaps, given the number of interests at stake, two months of preparation was not enough. That, at least, is the most rational interpretation of the decision to take two months more before trying again. Chancellor Kohl, who proposed the adjournment, must know that in February, when he is in the chair, it will be more difficult for him to block a solution on grounds of German national interest; while President Mitterrand and Mr Chirac, even if they are competing for the farmers' vote, do also seem to agree that Europe itself is a vote-catcher in France. Neither will wish to be blamed for a major European failure as the election campaign opens.

Agreement in February is still possible, but it will not just happen. The sense of urgency must not get lost in yuletide relaxation.

Wrong priorities in aviation

THERE has been a strong hint of little Englander nationalism in the comments of British ministers and ex-ministers about the proposed investment by Scandinavian Airlines System in British Caledonian. Having rightly decided against referring the deal to the Monopolies and Mergers Commission, the Government has turned its attention to the question of whether the SAS shareholding would shift control of BCal outside the UK. The issue of national control is important because of the bilateral agreements which regulate most of the world's scheduled air services. If BCal is deemed to be non-British, the foreign partner in a bilateral agreement may revoke its licences on routes to that country.

Foreign governments normally accept the British view about whether an airline is British or not. The Civil Aviation Act requires the Civil Aviation Authority to inform the Secretary of State for Transport if it believes control of an airline has passed outside the UK. In making its judgment the CAA is not guided by precise rules. It assesses the total effect of shareholding structure, voting rights, board membership and so on. An unreasonable decision can be challenged by aggrieved parties (which in this case would probably include British Airways, still eager to acquire BCal) either through the licensing procedure or through the process of judicial review.

Minority shareholder

So far the CAA has not been asked to make a final judgment on a BCal-SAS deal, because no such deal has been concluded. It is giving guidance to the companies on what sort of deal, in its view, would involve a transfer of control.

The presence of SAS as a minority shareholder would pose less of a problem if BCal was a strong, viable airline. In those circumstances talk of a partnership would be more plausible. As it is, BCal badly needs new funds. As the main provider of those funds, as the largest individual shareholder and a substantial force in the airline business, SAS would inevitably exert a great deal of influence. Hence the CAA has suggested that SAS should bring in another British company as an equal partner in BCal.

However a CAA ruling that an airline is no longer UK-controlled is not the end of the matter. The Secretary of State may still decide to go on treating it as British and to support its continued entitlement to licences. Canadian-owned Britannia Airways, for instance, which operates mainly in the charter market, is treated as a British airline. It is very regrettable that in the BCal case Mr Paul Channon, Transport Secretary, has already indicated that, if the CAA decides control has left the UK, he will revoke its licences. This statement raises serious questions about the Government's priorities in aviation.

Promoting competition

Some play has been made of the indirect shareholding in SAS held by the Governments of Sweden, Denmmark and Norway. There seems no prospect of a reciprocal British shareholding in the Scandinavian airline. It is also pointed out that the Danish Government has been on the illiberal wing in the discussions about airline deregulation in Europe; no quid pro quo is likely on that front.

Yet these considerations are only relevant if the British Government sees its main task as securing, through bargaining with other countries, the largest possible share of the world market for British airlines. On this thoroughly mercantilist approach, an SAS shareholding in BCal is seen as giving something away to foreigners without obtaining anything in return. If on the other hand the Government is primarily committed to promoting competition and widening consumer choice, it should surely give a warm welcome to the idea of strengthening BCal through the SAS link and look for ways in which the genuine problems of nationality arising from the bilateral agreements could be made easier to solve.

Multinational ownership of airlines could help to break down the nationalism which pervades this business and so contribute to deregulation, especially in Europe. Such arrangements reflect commercial pressures which the regulators should seek to accommodate, not to obstruct. The SAS-BCal link appears to offer the twin benefits of fostering competition and strengthening the European airline industry. The Government's reaction to it is depressingly narrow-minded.

The Washington summit has aroused conflicting opinions in the US. Stewart Fleming reports

The disarming effect of Mr Gorbachev

THERE IS a tangible air of expectation in America today as the nation awaits the first ever visit of Mr Mikhail Gorbachev. The business of his summit with President Ronald Reagan may be important in itself but there is a growing perception that this Soviet leader, until now seen in the US from a distance, may be very different - and very challenging.

Even President Ronald Reagan, the most ardent anti-communist ever to occupy the White House, is giving him what can only be described as rave reviews when compared with his past assessments of the Soviet hierarchy. Last week he twice described him as "quite different" from past Soviet leaders because he has "never reiterated before the great national Communist Congress that the Soviets are pledged to a world expansion."

Moreover, to the dismay of the conservative Republicans whom Mr Reagan once counted amongst his most enthusiastic supporters, the objectives Mr Gorbachev is pursuing are designed to usher in a new more co-operative era in the superpower relationship.

Even this Administration is dropping tantalising hints that this is a course it wants to follow too. In a television interview on Thursday night Mr Reagan launched a vicious attack on his own hardcore conservative base and said he thought there would be a summit next year in Moscow. He added: "I think there is a reasonably good chance we will make another gigantic step forward in the elimination of nuclear missiles."

"This time it is the Senate conservatives who are going to be taking off their shoes and angrily banging them on the table," says Mr Michael Krepon, an arms control expert with the Carnegie Endowment for International Peace recalling Mr Nikita Khruschev's extraordinary performance at the United Nations during his visit to America in 1959.

Ironically it is not the thought that Mr Gorbachev might imitate Mr Khruschev's loutish behaviour which is worrying some Soviet experts in the US. It is the fear that the charismatic Mr Gorbachev will bring his formidable communications skills to bear and compete too effectively with Mr Reagan as a messenger of peace, thus increasing the pressure on Washington to move in the direction of what even some White House officials are referring to as "Detente II".

Recent polls have shown that Americans view Mr Gorbachev almost as favourably as President Reagan. An ABC News/Washington Post poll, published yesterday, indicated that 59 per cent of Americans view the Soviet leader favourably compared with 63 per cent who have a favourable perception of President Reagan. This past week has seen influential political columnists such as Mr David Broder of the Washington Post writing schoolmasterly columns urging the American people not to underestimate Mr Gorbachev or to make a "pop hero" of him. "Mikhail Gorbachev is bidding to become the 13th man in the American presidential (election) campaign," Mr Broder wrote, adding that he is "the presence that can change the dynamics of the game."

It is no wonder then that the White House launched last week a public relations compaign clearly calculated to counter the propaganda offensive Mr Gorbachev had already opened up in the US through the exclusive interview he gave to the NBC television network which was aired last Monday.

What is at stake this week which can be causing such consternation? After all this is the third such session between the President and the General Secretary since 1985 when Mr Gorbachev became the first Kremlin chief Mr Reagan had encountered.

With Mr Gorbachev making the pace, the issue which Mr Reagan and his advisers are wrestling with is how far and how fast they should follow Mr Gorbachev down the path towards both sweeping cuts in nuclear arms and a more ambitious easing of East-West tensions.

That this question should be posing itself more decisively this week than at the earlier Geneva and Reykjavik summits reflects in part the fact that, with those sparring matches over, Washington will see the first concrete results of the negotiations that have been conducted. Tomorrow will witness the signature of a Treaty to ban, world-wide, intermediate range nuclear missiles (INF).

But it also reflects the fact that the INF accord, though quite modest in military terms, has established precedents on issues like arms reductions and verification. It has also generated a political momentum for the conclusion of broader agreements involving dramatic 50 per cent cuts in long range strategic nuclear arms and the regulation of space-based offensive and defensive weapons. American hawks, who used to console themselves that an INF agreement would be a one-off limited compact, are now having to think again.

Evidence that Moscow has modified its negotiating position on the strategic arms issue and Mr Reagan's apparent readiness at least to discuss the issue of space defences with Mr Gorbachev has spurred speculation that this week's talks could accelerate START negotiations and raise the prospect of a Moscow summit next year.

The Kremlin, however, is sticking intransigently to its demand that a START deal must be accompanied by the continuation of controls of space defences under the terms of the 1972 Anti-Ballistic Missile Treaty.

This has raised the question of how Mr Gorbachev hopes to overcome or evade Mr Reagan's equally intransigent commitment to his "Star Wars" Strategic Defence Initiative which, if unrestrained, would shred the crucial ABM Treaty. This in turn would set off the sort of high tech arms race in space which Mr Gorbachev, with his nation's economic weakness in mind, presumably wants to avoid but which some hardliners in America savour in the belief that it is a path to strategic superiority.

Ultimately, therefore, a strategic arms deal is contingent on the resolution of the SDI issue. Washington is wondering whether Mr Reagan, following the resignation of Pentagon hawks such as Mr Caspar Weinberger and Mr Richard Perle, might now be in the mood to compromise on SDI.

Alternatively, Mr Gorbachev might decide to live up to his reputation as a risk taker and gamble that it is worth moving forward on START issues, leaving the space defences question on the side. He might do this, it is suggested, with the idea of raising the space defences issue later when Mr Reagan will be under greater pressure to compromise.

An even more risky gambit for the Soviet leader might be to press ahead with the START process in the belief that Congress, which has already begun to cut the funding for SDI sharply, may go so far as to prevent Mr Reagan from carrying out those SDI tests which would breach the ABM treaty. In either event, real progress on the strategic arms front would surely lead to a general warming of relations to the point that talk of a second era of "detente", a word Mr Reagan still abjures, would become more prevalent.

This would also bring Mr Gorbachev closer to what many Soviet experts in Washington see as his goal of not only recasting Soviet military strategy but also, as Mr Ed Hewett of the Brookings Institution puts it, "restructuring the way they manage their economic relations with the rest of the world."

With such possibilities on the horizon, the debate in the US about the domestic political implications of Mr Gorbachev's aggressive diplomacy, about the significance of his reforms for the Soviet state, and about how the US should respond both diplomatically and militarily, has suddenly intensified, not least because of the approaching Presidential election.

But there is little unity of political opinion as to how the Soviet factor will play in the campaign. It is noted with irony that only one of the Presidential candidates from Mr Reagan's Republican Party, his loyal Vice-President, Mr George Bush, is unequivocally supporting the INF treaty.

Mr Kevin Phillips, a Republican political theorist, discounts the liklihood that arms control could become a decisive factor in next year's Presidential election. "Americans vote on cultural and economic issues and on war. Disarmament and arms control are too esoteric," he maintains.

Mr Norman Ornstein, a political scientist at the conservative American Enterprise Institute, disagrees. He think it will make the issue of foreign affairs a more salient theme in the elections, working to the advantage of the Republicans, specifically Vice-President Bush and Senator Robert Dole, because the declared Democratic candidates lack experience.

The divisions about the appropriate US response to Mr Gorbachev are most marked and passionate inside the Republican Party. Indeed some right wingers, for example Mr Pat Buchanan, the former White House Communications Director, are predicting that Mr Reagan's softening attitude towards Moscow will trigger a ruinous ideological war which will tear the party apart.

Senator Dan Quayle, a conservative Republican, is amongst those who are arguing that Mr Gorbachev is not the radical reformist he appears and that in time he will be "Brezhnevised", as he puts it.

On this view, the Soviet leader's restructuring is another false dawn, just like the empty promise of detente which Mr Brezhnev himself brought to the last summit on American soil 14 years ago when he met President Richard Nixon in the midst of the Watergate scandal.

Mr Gorbachev's sacking of Mr Boris Yeltsin, the Moscow communist party boss, and the Soviet leader's repetition in his NBC interview of positions on human rights in particular betrayed no evidence of "new thinking" and are being cited here as evidence that even if he survives he will turn out to be little different from past Soviet leaders. Since the Soviet system cannot reform itself, it is argued, Washington should not be beguiled into giving the Soviet leader what he wants.

At the other extreme is the judgment that the Administration is not moving fast enough to improve relations with Moscow. "The Administration is devoting insufficent attention to the range of possibilities for co-operation with this General Secretary. It holds too orthodox a view of the Soviet system," says one Congressional Soviet affairs expert.

Mr Gorbachev's diplomatic offensive has also given new impetus to the debate about America's military priorities. Prominent Republican foreign policy strategists who do not belong to the ideological right are nevertheless savaging the Administration for lacking a strategic vision. "The purpose of a major strategic arms agreement should not be to implement a slogan, flatter the ego of an outgoing administration or to require us to bet our whole strategic future such on a gamble such as early SDI deployment," wrote President Nixon's former national security adviser General Brent Scowcroft last week. Others are warning against the excessive focus on arms control and the lack of attention to other issues on the Administration's four part agenda, notably regional conflicts.

The coming week should provide clues as to the direction Mr Reagan wishes to take in the midst of this political and intellectual ferment. Some are convinced that the President is so confident that his "peace through strength" strategy is working that, encouraged by his wife's desire that he leave an historic legacy, he will indeed move rapidly forward in the direction of broader arms control agreements. They note that he needs the arms control agenda to underpin the eroding foundations of his domestic political influence.

But even some of those who are sympathetic to arms control are concerned. A weakened American President at the end of his term, a man who has shown no grasp for the details of foreign policy and limited understanding of the complexity of the challenge an economically dependent America faces in leading the Western Alliance should not be moving quickly in this vital area. It would be better, on this view, for a new President with a new mandate to make decisions which will be hard to reverse and to make them slowly according to a timetable dictated neither by the imminent end of his political career nor by the desires of as canny a Soviet leader as Mr Gorbachev.

Men and Matters

Halifax, Dec 6

Prince Charles' northern lights

Harry Fitzgibbons had never been further north in Britain than Watford when Prince Charles suggested he visit Halifax in Calderdale, West Yorkshire.

Fitzgibbons runs Hambros Advanced Technology Trust, a £33m venture capital fund, and is a judge for the Prince's award for industrial innovation and production.

Why not a northern fund run from Halifax, the Prince proposed? Fitzgibbons, a Harvard-educated US lawyer who has lived in Britain for 15 years, still cannot believe what he has found since arriving in Yorkshire. "The place is alive with talent and ideas", he says. "In the south people moan all the time about property prices, getting staff, and traffic congestion. It's becoming very difficult to start a company there. You get better value pound for pound in the north. We shall be doing a lot of deals up here".

He has set up in Halifax's Dean Clough industrial park. Michael Taylor, leader of the Liberals on Calderdale Council, has given up his teaching job to run the office.

Prince Charles has returned the favour by handing over the first investment cheque to a new Leeds medical technology company.

Prince Charles is interested in Halifax because he is president of Business in the Community, which picked the place for its partnership experiment in regeneration. The idea is that public and private sectors and political parties should sink their differences and work together to develop the economy and attract investment.

After a year the difference in atmosphere is very noticeable. Barriers are mostly down. Even at social events people have broken out of their cliques and mix better.

Magic carpets

Ernest Hall - the Lancashire-born but Bradford-domiciled millionaire who is creating Dean Clough as a village of small businesses out of 1m sq ft of former Crossley carpet mills - looks like pulling off a notable coup.

An outstanding feature of Dean Clough is a built-in art gallery, now stocked with 167 significant British contemporary and modern works.

Hall, himself a concert pianist who still gives recitals with Martin Milner, leader of the Halle Orchestra, buys continuously, arguing that profits should improve the quality of life and that art in the workplace can only enrich it.

Many London critics have yet to catch up with this increasingly important collection of national talent. But not so the Slade, a pillar of British art education.

The Slade is to set up a northern headquarters in Dean Clough and will start shipping some of its students to Halifax next term for short courses. Fully northern-based courses will follow and Hall plans to convert some of the old mill buildings into a hall of residence.

Hall was a textile manufacturer who caught the Carnaby Street boom of the 1960s with a range of fancy worsteds. He used the profits to build the Mountleigh Group but disengaged five years ago - handing over control to his protege Tony Clegg - to take on the derelict Dean Clough because he thought the work would be more heartening.

Bridge too far

Chairmen rely on good chief executives if they want to do several jobs at once. While chairing two important northern organisations John Gunnell has well- respected chiefs in Alan Pickering at Yorkshire Enterprise, the regional venture capital fund, and John Bridge at the Yorkshire and Humberside Development Association.

But Gunnell was looking glum last week, so I asked him if this was because there was indeed truth in a rumour that Bridge is going to run the Northern Development Company (NDC) in Newcastle.

The NDC is a one-year-old joint effort of private and public sectors to stimulate jobs, growth, and investment in the North-East and Cumbria. It lost its first chief executive, Martin Easteal, because his family could not settle on Tyneside. "Mr North fails to persuade Mrs South", was a particularly unhelpful headline for the NDC at the time.

Gunnell says that the rumours are true, but that he is still hoping to persuade Bridge to stay. He may be too late. The NDC has called a press conference for this morning. The smart money is on an announcement of Bridge's appointment.

Smoked out

With the season of corporate goodwill upon us, David Wilkinson, who runs 3i's Leeds office, has a cautionary tale for cost-conscious dispensers of festive cheer.

Hosting a lunch for 3i's network of accountancy contacts at ahotel in Hull, he decided to make the liqueur stage less expensive by giving the head waiter 3i's own box of cigars to hand round after the meal.

The trouble was that he and his colleagues are non-smokers. And the box had lain untouched in the office sideboard for longer than anyone could remember. A sinking feeling set in when a bon viveur from one of the big eight accokuntancy firms took a cigar, sniffed it, rolled it between experienced fingers, and proceeded to berate the head waiter for offering such dried-up rubbish at hotel prices.

Jackson's post

Tom Jackson, the man who led the last postal strike Britain, was able to look upon the threatened re-run with a certain detachment in spite of the fact that the small business he now runs relies heavily on the Royal Mail.

Jackson lives in Ilkley, Yorkshire, where he runs a mail order bookselling business with his wife Kate. Specialist books on cookery, wine and spirits, and gourmet interests, are kept in one half of their cellars, children's and juvenile books in the other.

Their Christmas catalogue of new stock came out in November. Jackson says that he had the bulk of his orders posted by the middle of last week, when the crisis talks to avert the strike were taking place.

He is 62 now and he began his business soon after retiring five years ago. He says he misses the hurly burly of a career that also saw him a governor of the BBC and a non-executive director of BP for nine years, although the books and a four-year-old daughter, Sarah Jane, keep him very busy.

His catalogue of children's books attracts customers from all over the world, with first editions of the Henty adventures for boys snapped up quickly.

As a gourmet cook, however, he is proudest that Elizabeth David, the cookery writer, buys from him. It was from her books that he learned to cook, his palate having been awakened first by foreign travel when he was a trade union leader.

Personal ties

Redesign of the Newcastle-based Northern Rock Building Society's corporate tie - the society's logo has been dropped to persuade more people to wear it - has put a strain on brotherly love in Northumbria.

The chairman, Viscount Ridley, is reported to like the tasteful new style, which is in house colours only. But his brother Nicholas, the environment secretary, is peeved. He likes wearing the old tie because it gives him a personalised, monogrammed look when he stands at the House of Commons despatch box. The logo is his initials, NR.

Observer

EUROPEAN STEEL

Right to the door of the furnace

By William Dawkins in Brussels

STEELMAKERS across the European Community stand unwillingly on the brink of a new and alarming prospect. Their Governments have been asked by the European Commission to come to a final decision tomorrow on whether to end the system of EC steel output controls which, for the past seven years, has provided an artificial prop to prices and cushioned producers from the full blast of competition.

This is the culmination of an 18-month game of cat-and-mouse in which the big integrated producers – through their "club", *Eurofer* – *have* done *everything* in their power to dodge the Commission's attempts to usher in a free market for steel. Now they are confronted with possibly the most important decision facing the steel industry this decade: a Commission proposal which could end the entire quota system just six months from now.

The stakes are very high. Eurofer warns that a hasty return to an unprotected market will plunge its 23 members into a price war and force governments to use illicit subsidies to help the weak survive and to preserve jobs in the areas of high unemployment where steel plants are typically based.

According to the Eurofer argument, the result would be to distort competition even more than the quota system itself and do little to help tackle the steel industry's central problem: overcapacity. EC steelmakers already plan to shed more than 80,000 jobs over the next three years, and claim that they cannot offer much more without the protection of quotas.

Brussels's fear is that failure to crack the quota system now, or at least decide when to end it, will reduce the steel industry's chances of ever becoming internationally competitive. More frightening, there is the risk that continued pressure for protection might suck the EC into a steel regime as burdensome as the agriculture policy it is now struggling to reform.

Yet the political sensitivities beneath the steel debate indicate that EC industry ministers will fudge the issue at their meeting tomorrow. *On the table* is what a vacillating Commission claims is its final plan for dismantling steel quotas, which currently govern about 60 per cent of the *EC's 130m-tonne annual steel* output. Most of these, for wire rod, merchant bar and hot and cold rolled coil, would disappear in two steps between the end of this year and July 1 1988.

The rest of the quotas, for heavy plate and heavy *sections*, where demand from the depressed construction and offshore industries is weakest, would go by the end of 1990. That is conditional on the industry coming forward with guarantees of adequate closures in plate and sections by mid March. If it does not, which seems likely given Eurofer's past record, *those products would also be* liberalised by next July.

It is almost inconceivable that the package will attract the majority of member states it needs to be adopted. That means the entire quota system would automatically expire on January 1, an unacceptably Draconian option for all, with the possible exception of the *UK*. Instead, ministers are expected to ask Brussels to come back to a second Industry Council before Christmas with a watered-down version of its already heavily *diluted plan*.

The quota system was put in place in 1980 under Viscount Etienne Davignon, former European Industry Commissioner, to help the industry restructure through its toughest recession since the Second World War. With the offer of national aid in exchange for closures, Davignon weeded out 31m tonnes of overcapacity and cut more than 250,000 jobs, bringing the EC steel workforce to its present total of 396,500, excluding new entrants Spain and Portugal.

But that was not nearly enough to slim output potential in line with demand and give the industry the stable base it needs. While those earlier cuts had horrific consequences for the communities involved, they were not as hard to make as the 30m tonnes which the Commission estimates must still come.

This total includes a hard kernel of 10m tonnes of hot rolled coil overcapacity, concentrated in a handful of big integrated plants mainly in West Germany, France, Italy and the UK. Closures there could spell political disaster for some of the governments concerned. The earlier round, by contrast, consisted *mainly of long products (such as* bars, beams and rods), scattered *through small mills* where the agony was shared more evenly.

Politically, the Commission has chosen a good time to call for liberalisation. Steel demand *and output have climbed in the* past few months thanks to stronger than expected demand from the car industry, suggesting that the industry will be able to stand up to a blast of free competition. The average EC hot rolling mill is now running at 75 per cent of capacity, not far below the 80 per cent the Commission estimates is the minimum for long-term viability.

However, this only masks the fact that the recent upturn is probably just a flash in the pan. International Iron and Steel *Institute estimates show EC steel* consumption slipping from a 102m-tonne annual average *for* 1984 to 1986 to just 95m tonnes by the end of the decade, alongside a long-term decline throughout the industrialised world.

To make matters worse, Mr Karl-Heinz Narjes, the present Industry Commissioner, has *none of the ability to cajole or* even bully wayward steel executives into promising closures shown by his aristocratic predecessor, Viscount Davignon. The sad irony is that the part played by quotas has been reversed, from an incentive to a prop for uncompetitive steelmakers.

The attitude of different member states and their steel industries varies *widely*. The key lies in the hands of a divided and indecisive Bonn Government, representing the EC's largest steel producers, with around a *third of output and capacity*. It is torn between the traditional West German urge for a free market, and fierce pressure from the industry and trade unions for a three-year extension of the quotas. Bonn is reserving its formal position until the last minute. But as one official confesses: "We could well end up as sinners against our own philosophy."

On the one side stands Mr Martin Bangemann, the liberal Free Democrat Economics Minister in the Christian Democrat (CDU) dominated coalition, who argues hard for an end to quotas. Against him stands the increasingly influential Mr Norbert Bluem, Labour Minister and CDU chairman in North Rhine Westphalia, *the country's big steel-making state and home to a third of the electorate*.

West Germany's top steelmakers are among the most profitable and efficient – with the exception of Maxhuette and Arbed Saarstahl – in the Community. They have shed some 8m tonnes of hot rolled coil capacity since 1980, more than any other member state. As such, they *might be expected to* benefit most from a free market. Yet they argue that it is unfair to dismantle quotas while their Italian and French competitors are still benefiting from state subsidies, either promised before government aid for the industry was outlawed by the EC in 1985, or handed over surreptitiously since then. They also maintain the *quota system is still an essential* aid to restructuring, a view shared by the Belgian and Luxembourg governments.

If Bonn finds it hard to make up its mind, Rome is no better. On the one hand, the Italian Government is grappling with the state-owned steel group Finsider, which makes heavy losses and wants all the protection it can *get. On the other, ministers* are under pressure to end quotas from the aggressive and efficient Bresciani group of independent producers, using low-cost electric arc furnaces in the north.

Finsider recently recorded a L580bn (£262m) first-half loss and is expected to turn in a record L1,500bn deficit for the full year. With its main plants in Bagnoli and Taranto in southern Italy and most of its customers based near cheaper competition in the industrialised north of the country, *some experts doubt* whether Finsider can ever be viable. Rome might agree to the Commission's package if it was allowed to subsidise Finsider, which is asking the Government for a L5,000bn-L6,000bn rescue package.

The French position is clearer. Usinor Sacilor, the state owned producer, is reducing its losses fast and even making a profit out of flat products. Paris can accept an end to quotas, but wants a longer period of grace than that in the plan.

The position of the UK has become murkier in recent days. Once the least flexible of all the EC countries, apparently wanting an immediate end to all quotas, the true position now seems a little softer. One senior British industry minister suggested a *few days ago that a six-month* cushioning period might be suitable. Sir Bob Scholey, chairman of the British Steel Corporation, said last week during the announcement of substantially improved corporation profits that the scrapping of controls should not be done without agreement on fundamental rationalisation. The corporation feels frustrated by existing controls but perhaps does not relish any serious drop in prices as it rushes towards privatisation in the next year or so.

Denmark and the Netherlands want to see change but they both lean towards the soft-landing approach advocated by the Commission. Only a year ago, the Dutch were keen to end quotas fast. Now they have softened because Hoogovens is projecting a loss for 1987 due to the damage inflicted on its export competitiveness by the dollar's weakness and the guilder's strength.

Overall, the picture is one of a chaotic and shifting response by most member states. This has a lot to do with national sensitivi*ties, and the success with which* the big integrated producers have been able to tempt the Commission into believing that they could voluntarily cut 30m tonnes of surplus capacity given the protection of continued quotas. In the event, they were able to *volunteer little more than half* of that.

At the same time, Mr Narjes deserves blame for swinging wildly over the past two years between advocating a fast end to quotas and proposing to keep them as an aid to restructuring. If the Commission's message is incoherent, the big integrated producers' anxieties have at least been consistent.

The real extent of the chaotic price-cutting, forecast by some Eurofer companies, is open to question. Steel experts believe that products taken *out of the* quota system would *show*, roughly speaking, an immediate 10 per cent price drop and then stabilise under the informal support of the Eurofer producers concerned.

That would be a big blow to an industry where even the most efficient companies feel they are doing well to report a 5 per cent profit margin on sales, even though prices have been known to swing more violently than that inside the quota regime. The difference is that Eurofer's room *for manoeuvre is more limited* than it has been for years. "They have just two choices left," says one Commission official. "That is whether to opt for a soft or a brutal landing."

EC hot rolled steel — Million tonnes

	Production 1980	Production 1986	Capacity 1980	Capacity 1986
W.Germany	31.7	29.1	51.9	43.9
Italy	20.9	19.6	36.9	28.6
France	19.1	14.7	26.9	20.6
UK	11.5	11.5	22.8	16.4
Belgium	10.2	8.0	16.0	12.8
Netherlands	3.7	3.4	7.6	5.9
Luxembourg	3.6	2.8	5.2	3.9
Greece	1.0	1.5	4.3	5.0
Denmark	0.6	0.5	0.9	0.9
Ireland	0.03	0.2	0.06	0.3
Total	99.7	91.3	172.6	139.5

Source: European Commission

EC steel jobs — Thousand

	1979	1986
W.Germany	204.9	142.7
UK	156.6	55.9
France	120.6	68.4
Italy	98.7	65.6
Belgium	46.7	30.5
Netherlands	21.2	18.9
Luxembourg	16.4	12.3
Denmark	2.8	1.7
Ireland	0.7	0.5
Total	670.4	396.5

Source: European Commission

EC steel aid — Finished rolled steel

	DM/tonne	DM/employee
Italy	572	793
Ireland	383	422
France	358	422
UK	239	223
Belgium	70	93
Luxembourg	62	75
W.Germany	19	24
Average	225	283

Source: W.German Iron & Steel Federation (Commission Fig.)

Lombard

Privatising in a bear market

BY GUY DE JONQUIERES

EVEN WHEN full allowance is made for the strong profits recovery at British Steel, the British Government's decision to accelerate plans to privatise the company is a *bold show of faith* in the markets' capacity to shrug off Black Monday and its aftermath.

No doubt it was intended as *such. Despite the BP share issue* flop, in which the only significant new recruits to wider share ownership turn out to be the Bank of England and the Kuwait *Investment Office, the message* seems to be : nothing has changed, the privatisation show will go on regardless.

But can it, and will it? Or is privatisation, in Britain and elsewhere, just an ephemeral product of the bull market, doomed to vanish in the stampede to sell? The answer can be yes or no. It all depends on what you *think privatisation is really* about.

In Britain, the programme was inspired originally by the government's impatience with the shortcomings of nationalised industries and its despair of finding a proper way to manage them. The stock market entered the picture in a big way only after the British Telecom flotation three years ago tapped an unexpectedly rich vein of investor demand.

Since then, privatisation has attracted other policy justifica*tions like a magnet* : *financing* the budget, creating a shareowner democracy and winning votes at the last election. However, as these aims have proved increasingly hard to reconcile in practice, both with each other and with the creation of more competitive markets, clarity about the programme's central economic rationale and purpose has been lost.

Experiences in other parts of Western Europe reveal yet more contrasts and paradoxes. At a recent seminar at Nuffield College, *Oxford*, several *French* speakers pointed out that France's post-1981 nationalisation policy espoused exactly the same goal of industrial regeneration as did privatisation in Britain – and had been remarkably effective. Indeed, the French socialists had always intended eventually to return the companies to private ownership: it was just that the conservatives had hurried things up.

The ironies are just as rich in Italy, where privatisation has served to strengthen – not weaken – the role of the state. The main privatisers, the state holding companies, are interested in shedding their loss-making and more marginal subsidiaries chiefly to free themselves to act more decisively in restructuring "strategic" industries. By partially privatising their remaining holdings, they hope to reduce the scope for industrial *meddling by political parties*.

Furthermore, privatisation has sometimes proved no more than a device for shuffling the public sector pack. The Bank of *England's commitment to buy* BP shares is one example.

Despite these wide divergences and contradictions, two themes are common to the privatisation movement in Europe and, indeed, worldwide. One is the realisation by governments that bloated and inefficient public sectors are a growing burden on national resources which they can no longer afford to carry.

The other is the re-definition of industrial policy. Past decisions by governments to saddle industry, both public and privately-owned, with a diverse array of social and regional obligations are widely acknowledged to have failed. Europe has learned to its cost that efficiency invariably suffers when managers are charged with political directives irrelevant to their businesses.

These forces are likely to prove *far more powerful and enduring* than any stock market cycle. In the meantime, however, those countries, notably Britain and France, which have deliberately chosen to measure the success of their privatisation programmes by the enthusiasm of the investor demand which they generate, face a problem of their own making.

The French government's decision to suspend further sales has already cost it a lot of face. But it is doubtful whether Britain will fare any better by boldly *protesting its determination to* persevere in the face of a weak and nervous market. If investors get the idea that the government cannot afford politically not to go ahead, it will encourage them to treat future flotations as distress sales.

Rather than engage in a game of bluff with the markets, the Government might do better to conclude that the days when privatisation could blithely be used to satisfy any number of political priorities are over, and to think hard about which aspects of its programme are really important.

Letters to the Editor

Dominance could be abused

From Sir Alan Neale.

Sir, Professor Valentine Korah (Letters, November 25) and Nicholas Green (Letters, November 26) have persuasively exposed the difficulties that may arise from the judgement of the European *Court to the effect* that in some circumstances acquisitions of shareholdings in competing companies may infringe Article 85 of the Treaty of Rome.

But why, in your editorial "Competition Rules" (November 30), do you condemn as "maverick" the Court's view in the Continental Can case of 1972 that the outright acquisition of a competitor by an already dominant company could infringe Article 86?

In that particular case the *Court was not satisfied on the* evidence that Continental Can should be regarded as dominant in the relevant market. But in a case where the Court had no doubt that a company enjoyed a dominant position in a significant market, why should it not be an abuse of its dominant position for the company to eliminate an inconvenient surviving competitor?

Alan Neale,
95 Swains Lane, N6

The EMS may stand for stagnation

From the Director of Research, Landell Mills Commodities Studies.

Sir, It is odd that the exchange rate changes of the last month should not have opened a more searching debate on what Britain is trying to do in its relationship with the European Monetary System, or more generally in its targeting of the sterling/Deutsche Mark exchange rate.

If the West German authorities choose to pursue policies whose ultimate consequence must surely be to drive the Deutsche Mark up to levels which choke off demand for German exports until they reach the modest level of German import demand, then that is a matter for them – a perfectly proper choice of political priorities.

However, we seem to be accepting by default that we should accompany *them* on this path. No doubt Samuel Brittan was right to rebut excessive alarm about the British balance of payments (November 26); but *whatever else may be said about* it, there are few who would defend the view that what the state of the British current account now demands is a large revaluation. That, however, is just what it is sure to get if we continue to keep the sterling/Deutsche Mark rate stable.

A comparison between the growth paths, *over the last few* years, of the countries within the inner ring of the EMS, and those, such as Britain and Italy, who have a looser relationship, inevitably prompts the thought that EMS stands *for* European Machine for Stagnation. There is no evidence that recent reforms to the system have improved it, or that any reforms are capable of preserving a system worth having while allowing other member countries to pursue goals that are significantly different from those pursued by the West German authorities.

Charles Young,
50-51 Wells Street, W1

No evidence of health hazard

From the Minister for Economic Affairs, US Embassy, London

Sir, Your article, "US to draw up $100m reprisals for EC meat ban" *(November 25), incorrectly* states that the European Community Directive banning meat produced from animals treated with growth hormones was decided "on the basis of scientific findings".

There is, in fact, no scientific evidence to support such a contention. On the contrary, the evidence indicates that hormones administered under currently-prescribed rules are safe. This has been demonstrated by the work of an EC expert group headed by Professor Lamming of *Nottingham University*, as well as the US Food and Drug Administration which concluded that use of such hormones poses no health hazard.

In keeping with the FT's high standards of fairness and accuracy, I am confident you will wish to call this correction to the attention of your readers.

Richard M. Ogden,
Embassy of the United States of America,
Grosvenor Square, W1

London could lose metal markets

From Mr Philip Robinson.

Sir, Many of us in the UK metal trade fear that, under the SIB regulations, rather more than advertising (Letters, November 30) will *be driven off*shore. One of the reasons that Mr Tarring has his problem is that the UK is the home of the world's largest metal market: the London Metal Exchange. More base metal business is done on the LME than anywhere else in the world.

The inappropriateness of the SIB-type regulation being applied to this market makes it likely that costs and complexity will drive business offshore, and London will cease, after 100 years, to be the centre of the world's metal trade.

Would Aunt Agatha want that?

Philip Robinson,
Metallgesellschaft,
Three Quays,
Tower Hill, EC3

Architecture has basic requirements

From Mr Timothy Lingard.

Sir, As a public relations exercise designed to promote the architect Richard Rogers and the architectural theories of like-minded architectural critics ("The Lloyd's building tops the bill," November 30), the Lloyd's *building has undoubtedly* worked.

Surely, however, aside from aesthetic judgements based on the vagaries and prejudices of individual assessments, the fundamental requirements of good architecture are that a building functions smoothly without undue maintenance and service expense. Also, a building should provide a sympathetic habitat for the occupants. The appearance of technical problems taken alongside consensus opinion from Lloyd's members suggests that *on* both these *counts* this building has fallen short of expected professional standards and that it does not in fact work satisfactorily from either within or without.

What a shame, therefore, that such a structure has been awarded with the ironically titled Financial Times Architecture at Work Award, and that *the alternative opinion* about this building, "Britain's daftest," caustically expressed by the architectural critic Gavin Stamp on the same day, has been ignored. Time, not architectural criticism, is the true test of the enduring utility and propriety of a building.

Timothy Lingard,
50 Pall Mall, SW1

Letters on the accounting debate are on page 11.

The Commission has intervened on the basis of Article 86

From Mr William Elland

Sir, May I make the following observations on your leader "Competition Rules" (November 30)?

Following the EC summit of October 1972, point seven of the final Declaration stated that it was "... necessary to seek to establish a single industrial base for the Community as a whole. This involves the formulation of measures that ensure that mergers affecting firms established in the Community are in harmony with the economic and social aims of the Community and the maintenance of fair competition as much within the Common Market as in external markets in conformity with the rules laid down by the Treaty."

Thus while it is correct that for the past 14 years the EC Commission has been trying to obtain powers to control mergers and acquisitions, it has done so principally as a result of the summit Declaration.

Since the first draft of the merger regulation in 1973 the Commission has proposed no fewer than three amendments to the draft mergers regulations in response, in part, to pressure from the European Parliament. In the EC Commission's Sixteenth Report on Competition Policy, having reviewed the failure of the Council to make any progress in respect of the draft proposal, the Report continues:

"This situation is difficult to understand in the light of persistent increases in concentration and the commitment of the Community to achieve an integrated internal market by 1992. *In such* a market a sound structural policy needs a means of controlling mergers having a Community-*wide dimension. Both of these* considerations lead the Commission to consider carefully Parliament's advice to withdraw the proposal and to make a fresh start in filling the lacuna in the Commission's competition policy."

It is not correct, as you suggest, that the Commission has so far wisely refrained *from relying* on the strength of the "maverick" judgment in Continental Can. While it is right to say that Continental Can concerned the only formal decision taken by the Commission prohibiting a merger, there have been several mergers in which the Commission has intervened on the basis of Article 86, which have been re-organised to take account of its view of the applicability of that Article. See for example BSN-Gervais-Danone (Comp. Rep. EC 1980, paragraph 152), Amicon Corp./Fortia and Wright Scientific (Comp. Rep. EC 1981, paragraph 112).

You make the point that the composition of the court in the Philip Morris/Rembrandt days was a Junior Bench. Whatever *its seniority may have been, I think it relevant to point out* that the court took some eight months to reach its decision: the opinion of the Advocate General was delivered on March 17, 1987; and judgment was delivered on November 17, 1987. It was scarcely a rushed judgment.

William Elland,
Francis Taylor Building
Temple, EC4

FINANCIAL TIMES

Monday December 7 1987

Janet Bush in Boca Raton, Florida

Rosy hues of Black October

A TANNED girl sauntered through the lobby of the Boca Raton Hotel, one of Florida's premier beach resorts, sporting tennis shorts and a T-shirt with a defiant message: "I survived Black Monday."

Surrounded by palm trees and bathed in Florida sunshine, the hotel - a pink confection of architectural styles from Gothic to Spanish colonialist - was playing host to the annual convention of the Securities Industry Association.

Amid the pink golf buggies and diamonds, Budweisers and Princess Di frills, the T-shirt served as an unwelcome reminder of what nobody could avoid talking about - the end of the 1980s bull market in equities.

Attendance at the convention provided evidence of who has the most serious thinking to do.

Many top executives of the aggressive, heavyweight Wall Street giants stayed away. As one delegate put it: "It doesn't seem very tactful to go back to New York with a fresh tan when you have just sacked hundreds of employees."

Representatives of small regional companies which specialise in selling securities to a voracious clientele of private investors were, however, there in force.

Astounding as it may seem given the palpable sense of panic on the New York Stock Exchange floor in the week beginning October 19, Edward D Jones, a St Louis-based regional broker with a large client base, reported that for every private investor who was selling stocks that week there were 10 who bought.

Retail orders have since dried to a trickle. As activity has dwindled, so the focus on cost-cutting and reassessment has intensified whatever the size of the securities business.

Nevertheless, there is little doubt that the bread-and-butter companies across America, so often regarded as dull in comparison with the high-risk, high-return arbitrageur and the whizz-kid who thought up junk bonds over morning coffee and bagels, have been less badly affected by the crash.

There are already the beginnings of a cultural sea change in the industry. New buzz words are emerging. Out go risk-taking, arbitrage and global expansion. In come risk-management, the retail customer and retrenchment.

Shot through every comment at Boca Raton last week was a sense that the industry is in a state of flux rarely seen before.

There is no unanimity of view. For every old hand with a seen-it-all-before attitude, there is a fresh-faced youth who has never been so scared in his young life.

Events have been moving at alarming speed. E.F. Hutton decided on October 19 to put itself on the auction block and its merger with Shearson Lehman dominated news headlines last week. Since the crash, the New York Stock Exchange has waived restrictions which had discouraged outside ownership of specialists on its trading floor. A new era of consolidation and capital injection is proceeding apace.

The conference encompassed bizarre juxtapositions of mood. Proceedings began with a clip of Ann Miller singing and tap-dancing her way through the number "Shaking the Blues Away" in the 1948 film classic "Easter Parade."

Sobriety returned with addresses by the triumvirate which played a key role in the crisis management of the week of October 19 - John Phelan, president of the NYSE, David Ruder, chairman of the Securities Exchange Commission, and Gerry Corrigan, president of the New York Federal Reserve.

Minds were sharpened to serious aspects of the collapse - an explosion of customer service complaints, thoughts about a fundamental restructuring of the industry and a testimony to the heroism of the specialists at the centre of October's trench warfare on the exchanges.

The conference was rounded off by a rousing team talk from veteran US football coach Lou Holtz who exhorted his assembled adoring fans to be honest and strive to be the best. Nothing could have been more quintessentially American.

Yet behind the glitz and undoubted spirit, the mood was sombre. This is a chastened industry in soul-searching mode. Talk has reverted to traditional preoccupations such as customer service and old-fashioned notions of the greater good of the nation and morality in business.

One night of the conference, a motorised hot air balloon floated over a glittering pool-side cocktail party, apparently a high-tech advertisement for the work of the Salvation Army.

Before moving sedately off over the manicured lawns and pristine white condominiums of Boca Raton, the balloon's electronic display flashed a concise message to the revellers which seemed to imply criticism of past excesses as much as the 500 point drop in the Dow Jones industrial average on October 19 - "Sharing is caring."

Ershad faces fresh crisis by dissolving Parliament

BY OUR FOREIGN STAFF

PRESIDENT HOSSAIN Ershad, facing mounting protest against his six years of rule, dissolved the Bangladesh Parliament yesterday.

State television, announcing the move in a terse late night broadcast, said Mr Ershad took the decision in accordance with the constitution.

No other details were given, although the decision to dissolve Parliament is understood to have been taken after a 90-minute cabinet meeting.

Under the country's constitution, a new election must be called within three months of the dissolution.

However, it remained unclear last night whether Mr Ershad would call fresh elections, or choose to rule by presidential decree. A third option would be a return to military rule.

The President, a former army general who took power in a bloodless coup in 1982, declared a state of emergency on November 27 to thwart opposition demands for his resignation.

Emergency regulations included a ban on rallies and marches and restrictions on news reporting.

There had been speculation

Hossain Ershad: pressure mounting against his presidency

recently within the ruling Jatiya Party that Mr Ershad might dissolve the 300-member Parliament and call fresh elections to defuse the growing opposition to his rule.

Dissolution became imminent after 10 members of the fundamentalist Jamaat-e-Islami party and two independents resigned last week.

The largest opposition party, the Awami League, also agreed in principle to resign, but announced on Saturday that it was delaying the move until its leader, Mrs Sheikh Hasina, was freed from house arrest.

The Government put Mrs Hasina, Mrs Khaleda Zia, chairman o the Bangladesh Nationalist Party, and other opposition figures under house arrest on November 11, the day after 21 opposition parties began demonstrations and strikes aimed at forcing Mr Ershad's resignation.

After the imposition of emergency rule, Mr Ershad offered to meet the opposition with a view to holding fresh elections.

He also freed 13 of the detained opposition leaders to create conditions for the peace dialogue.

The current Parliament was elected in May 1986, with the ruling Jatiya Party holding 217 seats, the Awami League 76 and Jamaat 10. Seven smaller opposition parties have 27 seats.

The opposition parties spearheading the campaign to oust the President claimed last year's elections were rigged with police connivance.

European timber merchants enjoy a windfall in Britain

BY ANDREW TAYLOR IN LONDON

TIMBER merchants from all over Europe have been flocking to Britain to buy scarce domestic hardwoods such as oak, sweet chestnut, walnut, beech, elm, yew and ash, blown down during the violent storm which swept south-east England on October 16.

Cricket bat manufacturers seeking English willow have come from as far as India, according to the British Timber Trade Federation.

It said the storm had presented a once-in-a-lifetime opportunity for furniture manufacturers and timber merchants, delivering in a single night 10 years' normal supply of British hardwoods.

Scandinavian furniture manufacturers were among the first off the mark, buying up almost all the yew blown down at Henley on the Thames.

"Dark yew is particularly attractive to Scandinavians more used to paler shades of pine," said Mr Allan Robinson, head of a storm task force established by the federation.

"Italian furniture makers have also been keen to acquire supplies of English walnut which remains very scarce, despite the storm."

Potential buyers include the Morgan car company which uses ash for the frame of its sports cars, said the federation.

"Parker Knoll has also been considering using domestic beech for chair arms for some of its top of the range furniture, provided it can get sufficient quality," said Mr Robinson.

Other inquiries have come from piano manufacturers and almost every small, specialist furniture manufacturer in Britain, including Viscount Linley, the Royal furniture maker.

Britain's ancient forests have been depleted over the centuries, firstly by the British navy's appetite for great wooden ships, then by the demands of the industrial revolution and finally by modern agriculture.

British hardwoods are, therefore, very scarce and prices have not fallen, despite the windfall.

Timber buyers, however, have become more choosy. They want only the best quality - any wood which may contain shrapnel (from the Second World War), nails or barbed wire, which would damage valuable saws, is of little use.

Single trees in suburban gardens are also of little interest unless they are exceptionally rare or of particularly high quality. One trunk is expensive to collect and gardens are not very accessible.

"The problem is a shortage of saw mill capacity. Mills in Britain have been run-down since the Second World War and cannot cope with all the timber that has become available," said Mr Robinson.

The Forest Windblow Action committee, established by the Forestry Commission, the British Timber Merchants Association (England and Wales), Timber Growers UK and the UK Wood Processors Association, said time is running out if less durable species like elm, birch, horse chestnut and walnut are to be sawn by April and ready for seasoning and kiln-drying.

"It is the arrival of spring and summer which encourages fungus and insect attacks and discolouration of wood. Sycamore, ash and beech are valued for their white colour and therefore should be given priority," said the committee.

Oak, sweet chestnut and yew, however, can lie where they have fallen for several years before they have to be sawn.

"It is important to store logs properly so that bare cut ends are lifted off the ground to prevent staining and insect attacks," said the committee.

In parts of Kent, one of the counties worst affected by the storm, temporary grandstands of logs have been built around football pitches to store timber before it goes to the saw mills.

Poland to phase in food price increases over three years

BY CHRISTOPHER BOBINSKI IN WARSAW

POLISH authorities are to stagger food price increases over the next three years, Mr Zbigniew Messner, the Prime Minister, said at the weekend.

He told Parliament on Saturday, however, that domestic rent and heating prices, as well as prices paid by industry, would go up as planned.

His speech comes after the Government's failure to obtain a majority approval of its economic reform programme in a referendum on November 29 - a poll which, nevertheless, saw two–thirds of those who voted say "yes" to the policies.

Details of next year's prices and incomes policies are to be examined by the Cabinet on Wednesday.

The draft will go to Parliament where it is to be debated, along with next year's budget, just after Christmas.

Mr Messner said that as a result of the referendum "we know people's fears, expectations and opinions better than ever before."

The main outlines of the reform programme, including more favourable conditions for joint ventures with foreign capital and a restructuring of industry, were still in place, he said.

He added that the phasing–in of higher food prices would mean the maintenance of subsidies, a larger than planned 1988 budget deficit, and smaller than planned cuts in the basic rate of profits tax paid by companies.

The premier received a slight shock towards the end of the day when 66 deputies voted against and 105 abstained on a government motion to allow the budget deficit to run to Zl318bn ($1bn) this year.

Only 184 deputies supported the Government in the vote which reflected anger that it had not come to Parliament earlier in the year for permission to overrun its budget.

The shortfall came from increased tax concessions designed to boost exports and smaller than planned food price rises in the spring.

SAS continues BCal rescue bid

Continued from Page 1

ations and act on the unimportant ones".

He said: "The factors which should be taken into account are the importance of saving up to 3,000 jobs threatened by redundancy; the desirability of maintaining a proper element of competition among domestic airlines; and the advantages of allowing the workforce to take a stake in the enterprise

"The factors which should not weigh with the Government are the political clout which can be brought to bear by some people with strong links with the Tory Party and objections to some degree of foreign involvement falling well short of control, which certainly did not seem to have bothered the Government in the case of BP."

In a speech at the weekend, Mr Robert Adley, a Conservative MP, said: "The Government is adopting an extraordinary doctrine, a mixture of xenophobia and dogma. The proposed SAS-BCal partnership would be good for British and European aviation".

World Weather

		°C	°F			°C	°F			°C	°F			°C	°F
Ajaccio	F	16	61	Dubrovnik	F	15	59	Malta	S	20	68	Rhodes	S	14	77
Algiers	F	19	66	Edinburgh	C	6	43	Manchester	F	5	41	Rio de J'o	-	—	—
Amsterdam	C	1	34	Faro	C	16	61	Manila	-	—	—	Rome	F	16	61
Athens	C	13	55	Florence	C	14	57	Melbourne	C	17	63	Salzburg	R	1	34
Bahrain	F	23	73	Frankfurt	C	3	37	Mexico City	-	—	—	San Francisco	C	15	59
Bangkok	-	—	—	Funchal	C	16	61	Miami	S	11	52	Seoul	S	5	41
Barcelona	S	15	59	Geneva	C	9	48	Milan	F	9	48	Singapore	F	30	86
Beirut	-	—	—	Gibraltar	F	15	59	Montreal	C	-2	28	Stockholm	C	-1	30
Belfast	C	7	45	Glasgow	F	5	41	Moscow	Sn	-2	28	Strasbourg	R	2	36
Belgrade	R	7	45	Guernsey	R	8	46	Munich	R	1	34	Sydney	S	29	84
Berlin	C	-2	28	Helsinki	Sn	1	34	Nairobi	-	—	—	Taipei	-	—	—
Biarritz	S	16	61	H. Kong	S	13	55	Naples	F	17	63	Tangier	F	17	63
Bombay	S	32	90	Innsbruck	R	4	39	Nassau	-	—	—	Tel Aviv	F	16	61
Bordeaux	S	14	57	Inverness	R	5	41	New Delhi	S	19	66	Tenerife	C	21	70
Brussels	C	1	30	Islamabad	-	—	—	New York	C	2	36	Tokyo	C	3	37
Budapest	R	3	37	Istanbul	S	8	46	Nice	S	15	59	Toronto	C	-1	30
B. Aires	-	—	—	Jakarta	-	—	—	Nicosia	-	—	—	Tunis	F	16	61
Cairo	F	19	66	Jersey	R	8	46	Oporto	F	13	55	Valencia	S	16	61
Cape Town	S	21	70	Jo'burg	R	18	64	Oslo	S	-3	27	Venice	F	9	48
Caracas	-	—	—	Lima	-	—	—	Paris	R	6	43	Vienna	R	2	36
Casablanca	F	19	66	Lisbon	R	11	52	Peking	S	5	41	Warsaw	C	0	32
Chicago	F	0	32	London	C	7	45	Prague	R	0	32	Washington	F	3	37
Cologne	C	-1	30	Los Angeles	C	12	54	Reykjavik	C	2	36	Zurich	R	6	43
Copenhagen	C	1	34	Luxembourg	C	3	37								
Corfu	C	17	63	Madrid	C	9	48								
Dallas	C	18	64	Majorca	F	18	64								
Dublin	C	7	45	Malaga	S	16	61								

Readings at mid-day yesterday

C-Cloudy D-Drizzle F-Fair Fg-Fog H-Hail R-Rain S-Sun Sl-Sleet Sn-Snow T-Thunder

Call for review of Japanese financial system

By Ian Rodger in Tokyo

A REPORT by an influential advisory body to the Japanese Ministry of Finance has said that a thorough review of Japan's financial system is needed because the present rigidly compartmentalised structure is inhibiting the development of the country's financial markets.

The long-awaited report by the Financial Systems Research Council (FSRC) is considerably stronger than expected. It can be expected to encounter tough opposition from securities companies and some types of banks which benefit from the present structure.

MoF officials reacted positively, if cautiously, to the report, saying it would serve as a guideline for special committees to be set up to tackle specific issues. Officials would not forecast how long any revision of the current system would take.

Most of the barriers between different types of financial activity are contained in laws, so legislation would be required.

Last month, exerpts from the committee's draft report calling for such radical changes as the elimination of the present legal separation of banking and securities businesses aroused hostility within the securities industry and in MoF's securities bureau.

MoF officials said at the time that the final report would be toned down but this does not appear to have happened. The report says bluntly: "The present system is bound to get in the way of the further deregulation of finance."

Moreover, it says, attempts to preserve rigid demarcations between different types of institutions could be self-defeating, causing many businessmen to conduct their financial transactions in other, less-regulated, markets. The committee urged MoF to review all the present institutional restrictions, separating various types of banks and securities businesses.

However, it made few recommendations for reform, and it recognised that it would be impossible to resolve all the issues at once because of the many conflicting vested interests involved.

Gorbachev, Thatcher

Continued from Page 1

lated him on his role in achieving an INF deal and put forward her proposal for a US-Soviet agreement on space technology.

Under her plan, which she first raised during the Moscow talks, both sides would agree a fixed timetable to continue research, in the hope that it would create sufficient confidence to enable the Start process to begin. The intention is that the initiative would avoid any breach in the existing Anti-Ballistic Treaty (ABM).

Today, Mrs Thatcher intends to make full use of her brief meeting with Mr Gorbachev to press home her support for a 50 per cent negotiated reduction in strategic nuclear forces while stressing the need for proper verification. She will remind him that, as far as Britain is concerned, there can be no cuts in short-range nuclear weapon systems in Europe unless and until a balance of conventional weapons is achieved on the Continent.

Fears for EC budget deal

Continued from Page 1

opposed to any rapid switch away from the present value added tax-based system, towards the proposed gross national product-based system. The latter would significantly increase Italy's budget contribution, by taking into account its hitherto unmeasured black economy.

Mr Jacques Delors, the president of the European Commission, who has fought strenuously for the reform package to be approved at Copenhagen, and even hinted at resignation if it failed, appeared grudgingly to accept the outcome.

"When the time is not ripe, when people cannot agree, a resignation here or there will not change anything," he said.

Summit optimism grows

Continued from Page 1

ever the the US intended to continue with SDI research and testing. "The President is pressure proof on that," he said.

In his radio address on Saturday Mr Reagan, who has come under fire from right-wing Republicans for moving too rapidly to reduce tensions, insisted that he would "raise human rights forcefully " during his meetings with Mr.Gorbachev. He also said that he intended to ask the Soviet leader "to set a date certain for the withdrawl of Russian troops" from Afghanistan.

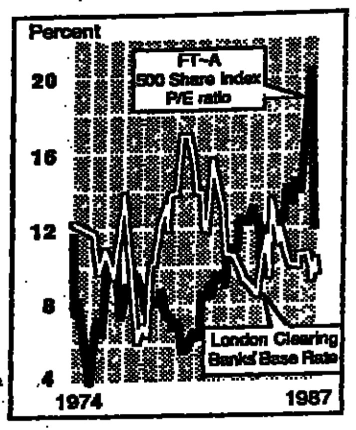
Meanwhile, on Capitol Hill political leaders made clear that they do not intend to rush Senate confirmation of the INF treaty.

Senator Robert Byrd, the majority leader of the Senate said it is "going to take several months to consider the merits " of the treaty. Hearings are expected to open on January 19.

THE LEX COLUMN

UK plc thinks it's cheap

Share buy-backs may still have a slightly suspicious foreign flavour to them, but they are catching on fast. Compared to America, British buy–backs are small beer: there has been nothing on the scale, for example, of Ford's announcement last month that it would retire $2bn of its shares from the market. So far, only a handful of British companies have sought authorisation from shareholders for repurchase operations – the most noted examples are Guinness and Coats Viyella, with the latter planning to buy up to 14.9 per cent of its equity. Fewer still have actually carried out any purchases. But for the first time since the 1981 Companies Act made buy–backs legal, a large number of companies are finding the idea attractive.



It would be surprising if they didn't. A company with strong cash flow and a p/e in the doldrums can boost earnings per share significantly by buying in a percentage of its own equity, supporting the share price in the process. And as interest rates fall – meaning that the returns foregone on surplus cash decline – the logic looks even more compelling. If interest rates dropped to 7 per cent, Phillips & Drew calculate that a company could afford to buy its shares at a p/e of up to 22 and still maintain earnings per share – provided that it pays enough UK corporation tax to cover ACT liability arising from the buy-in.

The latter is a crucial proviso. ACT is assessed on the difference between the purchase price of the shares and their base subscription cost; companies which do not pay enough corporation tax to cover this, end up with unrelieved ACT. For many companies, the tax penalty must be decisive. Glaxo for example – cash rich and otherwise a candidate for a buy-back – has ruled out a repurchase on those grounds.

For those who can clear the tax hurdle, however, repurchasing a conservative 5 per cent or so of shares could make good financial sense. So far, property companies have been the quickest to test this thesis in the post-crash market: apart from the aggressive Mountleigh, British Land, Hammerson and Chesterfield Properties have all been active. Their incentive is obvious; property shares traditionally trade at a discount to net asset value and assets per share benefit when equity is retired.

So why is the coterie of buy–back enthusiasts still so limited, especially compared to the US? One answer is that unlike their US counterparts, UK companies face limits on the amount of stock they can purchase (to buy more than 15 per cent is complicated and expensive) and need shareholder approval to do so. But there is a more fundamental reason: the recession of the early 1980s has left Britain with a phobia about high gearing which corporate America could scarcely be said to share. That fear will probably keep the increase in repurchases within bounds – just as well, if the bear market does turn out to be ushering in a recession.

Building societies

There is a certain irony in the fact that the building societies, whose cash flow was one of the biggest casualties of the Government's privatisation programme, are now being put forward as ideal vehicles for advancing the Government's cause of wider share ownership. The idea seems to be that fledgling investors who have lost a bundle on BP will be able to regain their confidence in popular capitalism by taking a stake in a safe and solid UK building society.

The idea looks attractive, at first sight. In terms of size the Halifax, with £28bn ($50bn) of assets, is considerably bigger than any of the Scottish banks or the TSB, and along with the other major societies has a customer base and reputation which even the biggest clearing banks would find hard to match. The societies' minimal bad debt experience would make any normal banker blush, and the immeasurable improvement in the clearing banks' marketing skills over the last decade has been primarily due to the fierce competition they faced from the building societies.

With this sort of pedigree, some of the top ten UK building societies, each of which boasts assets of over £4bn ($7.2bn), might be sufficiently flattered by their advisers to consider coming to the stock market over the next couple of years. The rationale is that they need to raise substantial new funds to diversify into new areas, compete more effectively and provide the sort of incentives, such as lucrative share options, which will enable them to attract top management talent.

While there is a certain amount of sympathy with this argument, the building society industry has a number of problems which could severely reduce the stock market's appetite for its paper. The industry's two major products - savings deposits and mortgages - have come under fierce attack over the last few years. The cheap ordinary share account, which provided close to 80 per cent of building society funds in 1980, has been irreparably damaged by the increasing competition for savers' funds, and the building societies have had to rely on ever more expensive savings products to fund new lending.

This has opened the door to a new breed of lenders who have been able to exploit their easy access to the cheaper wholesale money markets. The result has been a devastating fall in building society market share from around 80 per cent of new lending in the early 1980s to less than 50 per cent currently. In addition, there is considerable pressure on margins from the combination of rising overheads, an increasingly outdated distribution system for new mortgage lending and pressure by the life insurance companies, in particular, to claw back some of the commissions that the building societies have traditionally relied on.

The problems of the building societies are well understood and efforts are being made to repair their competitive advantage. They are being allowed considerably greater access to the wholesale markets, and the Government is considering relaxing the curbs on the types of business they can conduct. But investors should be wary of the claims that a stock market flotation is the key to the solution of the building societies' problems. One only has to look at the successful savings banks on the Continent, or the record of UK insurers like Standard Life, to realise that mutually-owned companies can prosper without the benefit of a stock market quote.

FINANCIAL TIMES
Monday December 7 1987

INTERNATIONAL BONDS

Caught on the horns of a dilemma by new UK legislation

TO MANY practitioners, it seems absurd that normal dealings between professionals in the Eurobond primary market should potentially become illegal under UK investor protection legislation contained in the Financial Services Act.

Yet rules proposed by the Securities and Investments Board (SIB), which will be in charge of the self-regulatory organisations established under the Act, could render unlawful the everyday practice of stabilising the price of a new bond issue.

The problem is yet another worry for Eurobond primary market practitioners who — as well as facing a dramatic drop in new issue volume – are also caught on the horns of a dilemma by the UK legislation.

They fear the only way to stay within the law on stabilisation, as well as to avoid a host of other problems, will be to jeopardise the independence from the secondary Eurobond market for which they fought long and hard.

This culminated in the setting up of the International Primary Market Association, the new issue market's own trade association, in London in December 1984. Mr Armin Mattle, managing director of Union Bank of Switzerland (Securities), is its chairman.

Stabilisation, or price supporting, is a common mechanism designed to smooth the initial distribution of an issue. While a bond is deemed to be in the primary market and not yet in secondary trading, a lead-manager will typically undertake to buy back the bond at a discount to issue price equivalent to the total fees. The costs or profits involved are distributed among the co-management group.

The problem over stabilisation has arisen like this. Aiming to protect the final investor from price manipulation, the SIB states in its rule book that it should be allowed only on exchanges recognised, or designated, by the UK authorities – over which they can keep an eye.

As far as the Eurobond secondary market is concerned, this would present no problems provided its representative body, the Association of International Bond Dealers, becomes a designated investment exchange.

But the primary market deliberately stands apart from the secondary market, so its dealings stand to become off-exchange. Anyone caught stabilising in those circumstances, according to Section 47 of the Financial Services Act, could face a maximum prison sentence of seven years in addition to a fine.

There appear three ways to avoid primary market stabilisation becoming illegal: the SIB could make a special exemption (which is extremely unlikely); IPMA could itself become an exchange (which it would not want, and in any case is impractical); the third is that IPMA puts itself at least partly under the AIBD.

Senior Eurobond market executives privately admit IPMA has no choice but to throw in its lot with the AIBD to some extent, given the difficulties of primary market dealings remaining off-exchange.

Notably, aside from stabilisation being illegal, if primary dealings remain off-exchange, each and every transaction would have to be reported to the SIB.

A joint working party between the AIBD and IPMA has been set up to try to find a way they can work more closely together. IPMA's aim, bankers say, is to find a means of working under AIBD rules for UK legislation purposes while at the same time retaining autonomy in other senses.

But, as a senior official in the AIBD said: "The AIBD does not want to get in a position where it has no control over the primary market yet is responsible for it."

One solution could be that IPMA should become a semi-autonomous body within the AIBD.

This was the course taken by market makers in the secondary market when its representative body, the Council of Reporting Dealers, was set up last year. This body has the right to make its own rules without going to the AIBD for ratification.

But to do that would be to take IPMA back full circle whence it emerged. It was originally a subcommittee of the AIBD before breaking away to become an entirely separate trade association.

Further, the AIBD and IPMA have drifted far apart in spirit over the past few years. While the AIBD has been adapting itself to the looming UK regulation by devising a host of rules on price reporting and other matters, IPMA has confined itself to providing guidelines on market practices, and has no power of sanction over its members.

However, with the contraction of Eurobond primary market activity this year it could be that the rationale for its independent existence is ebbing away.

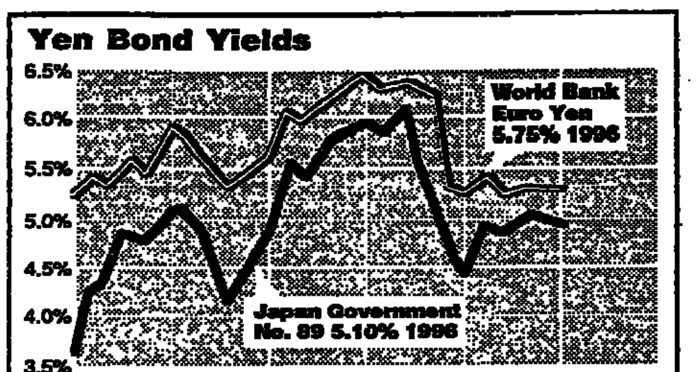
On the one hand, since its criterion for membership is the number of new issues a house has led over the previous two years, a fair number of its members must be due for expulsion when the membership is next reviewed.

At the same time, increasing worries among investors about the liquidity of new Eurobond new issues have recently put IPMA more in sympathy with some AIBD rules. For instance, this year it has recommended that a lead-manager in a new issue should undertake to make a market in it, under Council of Reporting Dealers rules, for at least the next 12 months.

So it seems inevitable that both regulatory and market factors should drive the primary and secondary markets closer together from now on.

Clare Pearson

Yen Bond Yields



Source: Nomura Securities

Southern Californian stores sold by Safeway

By Louise Kehoe in San Francisco

SAFEWAY STORES, the US supermarket chain which went private in a $4.2bn leveraged buyout deal last year, has agreed to sell its Southern California division to Vons Companies, a Southern California retailer, for $408m in cash and stock.

Safeway said that it will sell 172 stores, as well as its Southern California distribution and food processing operations, for $325m in cash plus 11.72m shares of Vons - 30 per cent of Vons' stock.

The acquisition is subject to the approval of Vons' shareholders and antitrust review.

Vons operates 193 stores in Southern California and Southern Nevada and had 1986 sales of $3bn.

Since its leveraged buyout, Safeway has been shedding unprofitable or marginal operations. The company has sold 508 stores in the US, as well as its 132-store operation in Britain.

EUROCOMMERCIAL PAPER AND CREDITS

Spanish industry returns to international loans market after hiatus

AN INDICATION of Spain's rehabilitation in the international loans market was delivered late last week with the expansion of a $200m loan for **Hidro-Electrica Espanola.**

Spanish borrowers were effectively excluded from the market for 10 months while the debt problems of another electricity utility, Fuerzas Electricas de Cataluna (Fecsa), were sorted out.

Hidrola was the first Spanish borrower to return to the market after the hiatus, and as a result moved tentatively, agreeing to pay a margin of ½ percentage point, twice what it would have expected to pay at the start of the year.

Nine banks have joined Manufacturers Hanover in underwriting the $200m facility, and following this response the lead bank has underwritten a second $100m tranche. This will be syndicated at a lower, ⅜ point, margin and banks wishing to join in general syndication will take up the deal on a pro-rata basis.

Banks are thought to be bidding for at least two more mandates for Spanish utilities, expected to emerge in January. There is already talk that these deals may contain at least an element of a ¼ point margin.

Elsewhere, there was talk that banks' appetite was beginning to wane for the rash of corporate deals which have been emerging, often at very aggressive pricing. There was a growing expectation that one of these days a major deal will founder. Banks are still diving into financings for the sake of their corporate relationships and despite widespread misgivings.

Meanwhile, the latest in a long line of French companies to raise a multi-option financing in the market is **Roussel-Uclaf,** the pharmaceutical group. The facility, led by Credit Commercial de France, with Banque Nationale de Paris, Credit Lyonnais and Societe Generale, is for FFr1bn. The facility fee is 5 basis points, while drawings carry a margin of 10 basis points if in French francs, but are made at Libor flat if in Eurocurrencies. Utilisation fees are 3 basis points if under half used and 6 basis points if over that.

Among other French deals in the market, Continental Illinois is arranging a facility for **Diac,** the captive finance subsidiary of Renault. A $300m financing for the aero-engine maker **Snecma,** which carried a tight 4 basis point facility fee, has been oversubscribed. Two UK multi-option facilities arranged by National Westminster Bank are likely to be increased after oversubscription. A $500m, five-year facility for **Grand Metropolitan,** with a 10 basis point margin, was oversubscribed enough, according to market reports, to double it in size.

The other, a £100m financing for **National Freight Consortium,** met more modest oversubscription. It carried a 35 basis point margin and a facility fee of 10 basis points for portion designated as available and 6 basis points for the unavailable part.

Black and Decker Holdings, UK subsidiary of the US tool maker, is raising up to £100m through a novel transaction arranged by Bank of America International. Banks are being invited to bid to provide one-year funds with a maximum margin of 18.75 basis points. Participation fees are 2.5 basis points for £15m, 2 basis points for £10m or £12½m, and 1.5 basis points for £7.5m. There is a fee on the unused portion of the financing of 12.5 basis points.

The borrower has the option to extend the facility for a further two years on payment of a 5 basis point fee and at a set margin of 25 basis points. It is extendable for a further two years at the lender's option, when the margin would be 37.5 basis points.

Mo Och Domsjo, the Swedish forest products group, is raising £50m through a five-year revolving credit facility arranged by S.G. Warburg. It allows for drawing of sterling or dollar cash advances or sterling bills. It carries a margin of 25 basis points, which is also the acceptance commission, and an annual commitment fee of 8 basis points.

Warburg is also arranging a $200m Euro-medium-term note programme for **Swedbank,** the third largest bank group in the Nordic countries. Other dealers on the programme are First Chicago, Merrill Lynch and Salomon Brothers.

In the Euro-commercial paper market, Merrill Lynch arranged a $100m programme for **Integrated Resources,** a financial services company based in New York. Other dealers are Barclays de Zoete Wedd and Mellon Securities.

Merrill is also arranging a $150m joint programme for **Inspectorate International Finance** and **Meridian Leasing Corp,** two subsidiaries of the Swiss company, Inspectorate International. CSFB is the other dealer.

Barclays disclosed terms of the $200m facility note issuance and advance facility it is arranging for **China International Trust and Investment Corporation.** Some $125m of the facility, which is for five years but extendable by agreement, will be underwritten.

The margin on drawings from the underwritten portion is 7.5 basis points, the underwriting fee is 6.25 basis points. Utilisation fees of 2 basis points are payable if it is between 40 and 70 per cent drawn, and of 4 basis points if more than 70 per cent drawn.

Stephen Fidler

EUROMARKET TURNOVER ($m)

Primary Market	Straights	Conv	FRN	Other
US$	1,954.2	0.0	88.0	5,567.2
Prev	0.0	0.0	274.0	5,174.8
Other	3,284.3	0.7	839.3	530.8
Prev	666.0	63.1	1,399.2	389.1
Secondary Market				
US$	15,280.7	1,575.2	8,973.1	5,831.6
Prev	15,435.4	1,552.2	10,511.8	5,141.4
Other	22,231.9	668.8	4,670.2	18,354.3
Prev	23,267.4	881.1	3,833.5	20,648.9

	Cedel	Euroclear	Total
US$	13,127.1	26,142.9	39,270.0
Prev	11,903.4	26,186.2	38,089.6
Other	20,811.6	29,768.7	50,580.3
Prev	22,163.5	28,984.8	51,148.3

Week to December 3, 1987 Source: AIBD

DEVELOPING COUNTRY DEBT

Moody's reviews ratings of US banks

MOODY'S Investors Service is reviewing the credit ratings of large US banks with loan exposure to developing countries because of what it sees as a rapid decline in the value of the debt.

The New York-based agency also lowered its ratings for the Eurobonds – which have been punctually serviced throughout the five-year-old debt crisis – of Brazil, Argentina and Venezuela. In all three nations, it said, "there has been a marked deterioration in capacity and willingness to service their foreign debt."

Among the gradings under review is the rare triple-A rating still held by J.P. Morgan and its Morgan Guaranty Trust subsidiary. Morgan said it hoped that its "earnings prospects and capital strength will convince the agency that our AAA rating should be affirmed."

Also being reassessed because of their Third World exposure are the holding companies and main banking subsidiaries for Bankers Trust, BankAmerica, Chase Manhattan, Chemical, Citicorp, Continental Illinois, European-American Bank, Bank of Nova Scotia, First Chicago, Manufacturers Hanover and Irving Trust.

Moody's cited decreasing cohesion between bank creditors, the effect of world trade and growth prospects on debtors' repayment capacities, the reduced commitment of borrowers to austerity programmes, the impact of the stock market crash on banks' ability to raise cash through equity issues and asset sales, and the sharp fall in secondary market prices for Third World debt.

The agency said the decline in the value of the loans "is accelerating rapidly and will begin to show more visibly in the accounting of exposed institutions."

Moody's also said it was considering widening the gap between the ratings of banks and their holding companies in view of "additional evidence of regulatory willingness to impose costs upon holding company creditors as a condition of support to the banks." Holding companies generally have lower ratings than their banking subsidiaries.

On the Eurobond ratings, Moody's said that Argentina's efforts at economic reform following the collapse of the Austral Plan lack credibility and that gains by the Peronists in recent elections represent a rejection of President Raoul Alfonsin's economic strategy.

In Brazil, it said, "the primary problem is political." Any agreement with creditors is likely to be derailed by domestic opposition.

Alexander Nicoll

THE $54bn of long-term debt owed by General Motors has been placed under review for possible downgrading by Moody's Investors Service, one of the two leading US bond rating agencies, writes Anatole Kaletsky in New York.

GM's bonds, including both domestic and Euromarket issues, are currently rated Aa1, the second highest category in the Moody's system. The company was demoted from the top-notch Aaa level in late 1981, when the US automotive industry sank into its deepest crisis since World War Two, against the background of collapsing domestic demand and intensifying Japanese competition.

Moody's said that its decision to review GM's present credit standing arose from the prospects of a further increase in competitive pressures on the US car market, resulting partly from large additions to manufacturing capacity by Japanese companies.

The agency also noted that GM is continuing to lose market share to Ford as well as to its Japanese rivals. Its cash flow could remain weak in the next few years as a result of spending on dividends and stock repurchases, despite a marked reduction in capital spending.

Standard & Poor's, the other major bond rating agency, downgraded GM's long-term debt almost a year ago, citing similar reasons. Neither agency has called into question the top rating for the short-term commercial paper issued by GM and General Motors Acceptance Corporation, its financing subsidiary.

Gardini planning major changes at Montedison

BY DAVID LANE IN MILAN

MR RAUL GARDINI, head of the Ferruzzi group, is set to introduce a wide-ranging rationalisation at Montedison, the debt-laden Milan chemicals company where he was appointed chairman at the end of last week.

After a board meeting where it was confirmed he was taking over from Mr Mario Schimberni, Mr Gardini said that Montedison – Italy's second largest private sector company – would withdraw from non-strategic sectors in order to allow the strengthening and development of strategic activities.

He underlined the company's willingness to examine the possibility of merging its chemicals activities into a single national operation. However, he said Montedison was not prepared to abdicate its role in the chemicals sector or to collaborate in creating hybrid ventures which are liable to fail.

Ferruzzi Agricola Finanziaria, the main holding company, said last week it saw the need for unified and integrated management of the Ferruzzi and Montedison groups.

Ferruzzi, the Ravenna-based food industry conglomerate, holds a 41.4 per cent stake in Montedison. It has built its controlling position through a series of share purchases which started in March 1986.

Mr Gardini has emphasised that the removal of Mr Schimberni from Montedison's chairmanship was not related to the former chairman's performance. Mr Schimberni piloted a significant turnaround in the chemicals group's fortunes during his seven-year term.

In 1982 Montedison reported a net loss of L859bn ($699.2m) on sales of L9,019bn. The group returned to the black in 1985 and last year reported net profit of L320bn on sales of L12,834bn. A substantial earnings advance to about L380bn is expected in the current year.

However, there is concern over Montedison's indebtedness. This has risen considerably during 1987 through three largeacquisitions and now amounts to about L7,700bn.

At the beginning of November Mr Gardini blocked a rights issue which was aimed at easing Montedison's financial position. It is believed that this decision widened the gap between Mr Schimberni and the Ferruzzi chairman.

Strong advance at Plate Glass in first half

By Jim Jones in Johannesburg

PLATE GLASS & Shatterprufe Industries, the South African glass and building products group, increased pre-tax profits by nearly a third in the six months to September, on sales up by a quarter, and is examining additional opportunities for foreign expansion.

On turnover which rose to R1.04bn ($526.7m) from R835m in the same period last year, interim taxable profits were R75.0m against R56.3m.

The directors say that the trading performance was better than expected, and that management is looking at financing options to fund unspecified international ventures. At present Plate Glass's foreign subsidiaries operate in Australia, Britain, Europe, South-East Asia, Africa and the US.

●Poorer export market conditions and higher rail tariffs combined to push **Rand London**, the South African coal and minerals subsidiary of the UK's Burnett & Hallamshire, further into the red in its six months to September.

Losses were limited by the disposal of two lossmaking minerals companies, but this was insufficient to offset the effect of lower export prices. The disposals more than halved turnover to R16.3m from R37.2m and the pre-tax loss was R3.59m against profits of R1.92m.

Dutch panel backs bid defence system

BY LAURA RAUN IN AMSTERDAM

DUTCH COMPANIES' notoriously protective mechanisms used to fend off hostile takeovers have essentially been condoned by a high-level panel appointed by the Amsterdam Stock Exchange.

The Van der Grinten commission, whose chairman belongs to the family of Oce photocopier fame, was asked to advise on the myriad of defensive devices used by companies to protect against unfriendly takeover attempts. A majority of the 15-member panel recommended that virtually no controls be imposed although a minority urged that the issuing of preferred shares be somewhat limited.

The stock exchange has done little to hide its dismay with the report, which took a year to draw up and was suppressed for 10 days after being received. Late on Friday a terse statement was released calling the report "valuable" in a legal sense but adding that no official comment would be made before the beginning of January.

A heated debate over corporate defences flared up last summer during the most hostile takeover battle in recent Dutch history, involving three leading publishers – Kluwer, Elsevier and Wolters Samsom. Until then very few unfriendly takeovers had been been attempted because companies arm themselves with a vast array of shields such as preferred and priority shares, share certificates, limited voting rights, controlled foundations and friendly trustees.

The Van der Grinten commission concluded that "protective constructions promote consultation between the interested party (raider) and the management of the targeted company." However, the commission did recommend a ban on non-convertible shares and suggested that the acquisition of a large number of shares should require an announcement.

More independence from a company involved was urged for foundations that control preferred shares and administrative offices that oversee share certificates.

The stock exchange board is believed to be deeply divided over the questions of protective mechanisms, unfriendly takeovers and stockholders' rights. By appointing the commission the bourse already has indicated its fears that corporate defences go too far.

Baron Bouwdewijn van Ittersum, chairman of the bourse, has argued that that hostile takeovers, if conducted properly, could be healthy for companies and that shareholders' rights should be strengthened. But one of the most vociferous supporters of defence devices is Mr Harry Langman, a member of the commission and of the board of Algemene Bank Nederland, a bank that has sworn to help no corporate raider.

Milan's bourse moves into the 'cage'

BY OUR MILAN CORRESPONDENT

MILAN'S STOCK market opens today in new surroundings. The old bourse in Palazzo Mezzanotte has been cleared to allow refurbishment, and temporary buildings nearby will house the bourse for at least three years.

Plans for renovating the old dealing floor have been prepared and await approval by Milan's city authorities. The work has still to be put to tender. This could mean that instead of returning to its old home in 1990, the bourse may have to wait several years more.

Shortage of space in the temporary bourse is already giving rise to tensions. The new trading board is smaller, and this has necessitated the exclusion from its listings of some issues traded on the Milan market. Probably about 40 from a total of 340 will not be shown, although dealings in the stocks will continue.

The transition will be aided by today's partial holiday in Italy and a national holiday tomorrow – subduing business which has already been thinned by the October crash. There has been no dry run, however, and one operator warned: "Milan is not going to have a Big Bang, it is more likely to be a big mess."

Journalists are complaining strongly, meanwhile, about a decision to exclude them from the dealing floor. It has been suggested that this limitation is aimed at reducing access to and abuse of privileged information. The new warehouse-like building, known as the *gabbiotto* (cage), will have a special press area into which only 30 journalists will be allowed.

The future introduction of automated dealing will, some believe, eliminate the need for a stock exchange in central Milan and that there will be no return to Palazzo Mezzanotte.

NEW INTERNATIONAL BOND ISSUES

Borrowers	Amount m.	Maturity	Av. life years	Coupon %	Price	Book runner	Offer yield %
US DOLLARS							
Metropolis of Tokyo♦	200	1993	6	9½	101½	IBJ Int.	9.164
Far West Cap.Corp.(a)‡♦	75	1993	5	32½bp	100	Drexel Burnham L'bert	-
Flash 5 (b)‡♦	30	1992	5	21bp	100.10	Sanwa Int.	-
Nordic Inv. Bank (c)♦	200	1994	7	9½	99.80	Salomon Brothers	9.767
Agricola UK**♦	100	1991	3¾	(d)	(d)	Morgan Stanley	-
D-MARKS							
Commerzbank O'seas Fin.♦	300	1993	5	5⅜	100	Commerzbank	5.375
Zanders Int.Finance♦	75	1995	7	6¼	100	Deutsche Bank	6.250
Ind.Dev.Bank of India♦	200	1994	7	6⅜	100½	Commerzbank	6.285
Ferrovie dello Stato♦	500	1993	5	5⅜	100¼	B'ische Vereinsbank	5.317
Bank of Greece♦	300	1992	5	5⅝	99¾	WestLB	5.684
SWISS FRANCS							
Elec.Supply Brd Ireland**♦	110	1995	-	5	100½	Credit Suisse	4.914
City of Vienna**♦	54	1992	-	4⅜	100¼	Wirtschafts-und P'bk	4.306
TransCanada Pipelines♦	100	1994	-	4⅞	100¾	UBS	4.747
City of Vienna**♦	100	1993	-	4⅝	100⅝	Wirtschafts-und P'bk	4.504
STERLING							
Goodman Fielder Ind.♦	150	1992	5	10⅝	100¼	Warburg Securities	10.558
Royal Trustco♦	50	1992	5	10⅛	101½	County NatWest	9.732
ECUs							
Credit Foncier♦	50	1994	6½	7⅝	97⅞	Banque Paribas	8.198
GUILDERS							
Philips**♦	150	1993	5	6¼	100½	Amro Bank	6.131
Rabobank Nederland**♦	100	1993	5	6¼	100½	Rabobank Nederland	6.131
YEN							
Credit Foncier♦	20bn	1994	7	5¼	101¼	IBJ Int.	5.034
China Int.Tst & Inv.Corp.♦	15bn	1993	5	5⅝	102⅝	Nomura Int.	5.018
DANISH KRONER							
Postipankki♦	270	1992	5	11	101⅛	Bankers Trust Int.	10.698

*Not yet priced. **Private placement. ♦Final terms. ‡Floating rate note. (a) 32½bp over 3m Libor. (b) 21bp over 6m Libor. (c) Launched on US domestic market. (d) Listed. Coupon and issue price not disclosed. Note: Yields are calculated on AIBD basis.

US MONEY AND CREDIT

Bond investors fail to be roused by good tidings

IT SHOULD have been a glorious week for the US bond market. With equities throughout the world (except, of course, Japan) experiencing their worst weekly falls since Black Monday, with the Bundesbank's decision to go the whole hog and cut its discount rate by a half-point and with the first signs of post-crash demand weakness emerging in many. US retailers' monthly turnover statements, it was hard to imagine what more in the way of good news bond investors could possibly hope for.

It could, of course, be argued that none of these developments were sufficiently unexpected to have much market impact. But then on Friday, investors got a further gift which very few still dreamt might come their way. After two months of benign neglect, verging on deliberate sabotage of its own currency, the Federal Reserve was suddenly spotted in the foreign exchange market buying dollars. The amount may only have been a token, but the Fed did appear to be acting in concert with the European central banks for the first time since the immediate aftermath of the stock market crash.

The Fed's intervention was quite possibly meant as a small but tangible reward to the Germans for their monetary relaxation and perhaps even a sign that the US authorities would not seek a further revaluation of the D-Mark for the time being.

A related, and even more important, feature of the past week's events in the foreign exchanges was the sign of a decoupling between the attitudes to the D-Mark and the yen. It is probably significant that the Fed was rumoured on Friday to have bought dollars for D-Marks, not for yen. A strong case can now be made for devaluing both the dollar and the European currencies against the yen.

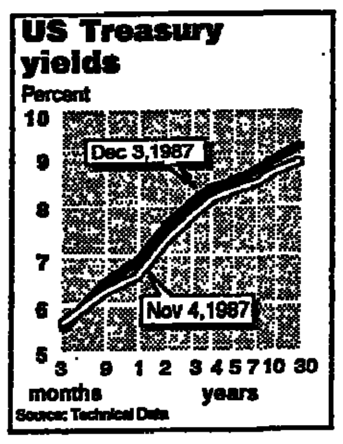
In this sense, the extraordinarily rapid third quarter growth of the Japanese economy reported last week may have unexpectedly bullish implications for the US bond market. It makes clear that Japan, unlike Germany, is coping very comfortably with present exchange rates – and suggests strongly that Japan, rather than Europe, is the most plausible locomotive to pull the world out of a possible recession next year.

Given its low propensity to import from other industrialised nations, it would be through sharply lower exports, rather than higher imports, that Japan could fulfill this unfamiliar international role. And the most likely way for that to be achieved would be through a further large appreciation of the yen, not only against the dollar but also against the D-Mark. Towards the end of last week, there was the first hint of such a movement in the cross-currency exchange rates, with the dollar showing more strength on Friday against the D-Mark than against the yen.

It could be, in other words, that in the next phase of their efforts to correct world trading imbalances the markets and the Washington politicians will concentrate on revaluing the yen rather than devaluing the dollar. If that impression were to gain hold, it would obviously be extremely bullish for US bonds.

Yet in a week which saw the first signs of trends like this emerging, the Treasury long bond managed a gain of only half a point, closing on Friday with a yield still well above the 9 per cent mark. This suggests a curious reversal in the state of expectations among bond and equity investors in the two months since Black Monday.

In the immediate aftermath of the crash, the equity market was surprisingly quick to regain a degree of confidence about the economic future. Contrary to the experience of 1929, when Wall Street quickly collapsed again from its mechanical post-crash rebound, it has taken nearly two months this time for equity prices to start retesting their October lows. For most of the past two months, equities were still being valued on the assumption that corporate earnings would go on growing next year – in other words that there was no recession in sight.



The bond market, by contrast, interpreted Black Monday as a sure omen of impending recession. The plunge in bond yields towards the 8 per cent range, at a time when industrial production was still booming and a further large devaluation of the dollar seemed all but inevitable, could be justified in no other way.

It has been clear for several weeks that something would have to give as a result of this contradiction between the dominant expectations in the two most important financial markets. But what is surprising is that a reversal has taken place on both sides of the bond-equity divide. The bond market seems to getting worried again about inflation and overheating, just as the equity market has finally begun to give up hope of healthy economic growth in the year ahead. The result is that expectations in the bond and equity markets are still as inconsistent as they were before.

* * *

The following are the main economic indicators due for release this week, along with the market's expectations as surveyed on Friday by Money Market Services of Redwood City, California:

- Trade figures for October (Thursday 8.30am) should show a deficit of $14.6bn, with forecasts ranging from $13.2bn to $15.8bn.
- Money supply figures (Thursday 4.30pm) should be up $7.6bn in terms of the broad M2 aggregate and up $20bn in terms of M3. M1 is expected to be down $2.5bn.
- Retail sales for November (Friday 8.30am) should be 0.1 per cent up, with forecasts varying across a wide range from 1 per cent down to 2 per cent up.
- Producer prices for November (Friday 8.30am) should be 0.3 per cent higher, with a range from minus 0.2 per cent to plus 0.4 per cent.

Anatole Kaletsky

US MONEY MARKET RATES (%)

	Last Friday	1 week ago	4 wks ago	12-month High	12-month Low
Fed Funds (weekly average)	6.92	6.69	6.69	11.34	5.92
Three-month Treasury bills	5.40	5.63	5.88	7.17	5.03
Six-month Treasury bills	6.15	6.20	6.37	7.65	5.30
Three-month prime CDs	7.60	7.45	7.03	8.28	5.84
30-day Commercial Paper	7.50	6.25	6.56	7.70	5.75
90-day Commercial Paper	7.40	7.30	6.87	8.85	5.65

US BOND PRICES AND YIELDS (%)

	Last Fri.	Change on wk	Yield	1 week ago	4 wk. ago
Seven-year Treasury	103⅝	+⅜	8.87	8.89	8.58
20-year Treasury	101⅛	+½	9.22	9.30	9.18
30-year Treasury	97½	+½	9.12	9.14	8.85
New 10-year A Financial	NA	NA	10.13	NA	9.75
New AA Long utility	NA	NA	10.25	NA	9.95
New AA Long industrial	NA	NA	10.25	NA	9.65

Source: Salomon Bros (estimates).

Money supply: In the week ended November 23, M1 rose by $3.3bn to $759.5bn.

NRI TOKYO BOND INDEX

December 1983 = 100	PERFORMANCE INDEX 3/12/87	Average yield (%)	Last week	12 wks ago	26 wks ago
Overall	138.81	4.78	138.40	134.46	141.26
Government Bonds	139.62	4.42	139.32	134.78	143.89
Municipal Bonds	139.50	5.27	139.12	133.86	140.48
Govt.-guaranteed Bonds	140.50	5.32	140.07	134.65	141.33
Bank Debentures	134.38	4.45	133.91	132.25	135.28
Corporate Bonds	137.56	5.75	136.72	135.07	138.20
Yen-denom. Foreign Bonds	138.86	6.64	138.70	138.34	139.68
Government 10-year†	–	5.12	5.16	6.23	4.32

† Estimated par yield

Source: Nomura Research Institute

Price limits urged on index futures deals

BY DEBORAH HARGREAVES IN CHICAGO

IN THE aftermath of wild US futures volatility during the October stock market collapse, Mr Karsten Mahlmann, chairman of the Chicago Board of Trade, has called for price limits on all stock index futures contracts.

Mr Mahlmann said if price limits had been in place during the week of October 19, they would have placed a psychological "damper" on a market driven by fear and uncertainty. In evidence to a presidential taskforce looking into market activity during the crash, he said the CBOT had decided to impose daily price limits on its thinly traded Major Market Index futures contract.

Daily price limits have long been resisted by Chicago's exchanges as they can curb speculative activity, which provides much market volume. But, given the spotlight on stock index futures volatility, the exchanges have felt compelled to impose their own limits before these are clamped on by outside regulators.

A daily price limit has the effect of halting trading once it is reached, a term known as "limit up." This halt would provide more time to obtain additional financing and facilitate payment and collection of margins, Mr Mahlmann points out.

The Chicago Mercantile Exchange imposed price limits of 30 points in each direction on its busy Standard & Poors 500 index futures contract in the wake of the crash and is now considering whether to lower these limits and make them permanent.

In his report to the taskforce, Mr Mahlmann also called for a review of the specialist system on the New York Stock Exchange. He called for competition between specialists and market makers for securities in order to provide a better price to the public in a timely fashion.

Overall, the futures industry should reassess its current capital requirements, Mr Mahlmann stated. "Capital requirements should be premised upon the risk of positions carried, not merely aggregate capital," he concluded.

UK GILTS

Monetary policy concern runs deep

IT APPEARS that monetary policy in the UK is currently exchange rate determined, almost to the exclusion of all else. This has lead to reductions in short-term interest rates which seem to have little justification in underlying economic conditions.

That was the rather harsh judgment of many analysts in the gilt-edged market late last week. Concerns about the conduct of monetary policy both at home and abroad are running deep in financial markets and this seems to explain why the yield curves in major bond markets are steepening.

In the UK, yields on gilt-edged securities not only rose after Thursday's ½ point cut in base rates to 8½ per cent, but on Friday they rose signifcantly further. If this was not unique, then it was certainly unparalleled in recent history.

At the same time the yield differential between conventional and index-linked gilts continued to widen – an unambiguous sign that the market is concerned about inflation. By Friday's close, yields on conventional long gilts were 9.61 per cent, and index-linked were yielding 3.75 per cent, representing a yield gap of 5.86 percentage points, up from 5.54 points a week before.

The weak trend in conventional gilts was exaggerated by the lack of institutional interest in any form of investment, other than cash, and by some rather large sell orders booked through on Friday.

Base rates were cut for a mixture of reasons, but two stand out. Concerns over the level of the dollar and the D-Mark and the effect of sterling's strength on British industry were uppermost in the authorities mind. Last Monday's steep fall in the equity market also worried the authorities who had thought some stability was returning to that market.

The Government's commitment to the DM3 level, however, suggests that it may have to lower base rates again, perhaps around the new year. It seems unlikely that stability will return to the foreign exchanges (and therefore equity markets) until it is convinced that Washington is prepared to stabilise the dollar.

As such, this commitment would seem to imply some tightening of domestic US demand via a rise in interest rates, but few are hopeful. The political imperatives of the 1988 presidential elections suggest Washington will put averting a recession ahead of dollar stability.

Meanwhile, the Bank of England intervened heavily every day last week. For the foreign investor looking for high nominal yields, however, sterling seems a one-way bet currently and few can see demand for it falling off.

It seems that the only circumstance in which this scenario could change is if the Government decides to take the cap off sterling. This would address domestic concerns over wage inflation, and after its inevitable appreciation foreign investors could well start seeing some downside risk in holding sterling assets as worries over a widening current account deficit in 1988 come to the fore.

Clearly the foreign exchange market is the one to watch this week. The situation remains extraordinarily fluid, however, and the US Federal Reserve's participation in Friday's currency market intervention could be a harbinger of a change in policy.

In any event it seems likely to be a volatile week. The US trade figures for October are released this Thursday and some analysts are forecasting a trade deficit of around $16bn.

* * *

A fascinating detail emerged in last week's Bank of England's notice on monetary aggregates. At first sight it appeared as if UK institutions were net sellers of gilts in October, but closer scrutiny shows that all the selling was done by building societies. Life companies and pension funds were net investors.

The non-bank sector was a net seller of £109m of gilts, but when building societies are excluded, this sector was a net investor to the tune of £622m.

Why did building societies sell £731m of gilts? Cashing up for BP partly explains it, but, according to Mr Bill Allen of Greenwell Montagu, it appears as if changes to the capital adequacy rules for societies may be more important.

Building societies have to provide £100,000 of capital reserves against every £1m of medium-dated gilts. With the bull market in gilts after October's share price collapse the societies took the opportunity to lighten their portfolios and make some capital profits as well. The funds are apparently being channeled into new business areas.

Simon Holberton

FT/AIBD INTERNATIONAL BOND SERVICE

US DOLLAR STRAIGHTS	Issued	Bid price	Chg on week	Yield
ABN BANK 8½ 91	150	97¼	0	9.46
AETNA LIFE & CAS 7⅞ 16	200	92⅛	–½	8.49
AHFC O/S.FIN. 11⅞ 94	100	98⅛	–	12.14
A.I.D.C. 11 89	75	102⅜	–⅛	9.33
ALBERTA 7⅞ 91	750	94⅛	+⅛	8.98
ALCOA AUSTRALIA 11 92	60	98⅛	+⅛	11.57
AMERICAN EXPRESS 12⅛ 88	150	102⅞	–⅛	8.89
AUSTRALIA 11⅛ 90	100	103½	–⅛	9.77
AUSTRALIA 11⅛ 00	100	105⅛	0	10.43
[illegible]				
ONTARIO HYDRO 11⅞ 94	200	108⅜	+⅛	9.65
ONTARIO HYDRO 11⅞ 90	200	107	0	8.85
ONTARIO HYDRO 13½ 91	100	112⅛	+⅛	8.99
ONTARIO HYDRO 14⅛ 89	150	107⅞	0	8.82
ONTARIO HYDRO 15 92	150	120⅜	0	9.29
PACIFIC GAS&EL 12 00	75	107⅞	0	10.84
PENNEY J.C. 12⅞ 91	100	106	–⅛	10.71
PEPSICO CAPITAL 8⅞ 91	100	97⅞	–⅛	9.41
PEPSICO 7⅞ 93	200	91⅞	+⅛	9.46
PETRO-CANADA 7⅞ 96	200	84⅞	+⅛	9.97
PHILIP MORRIS 9⅞ 90	200	98⅞	+⅛	10.13
POSTIPANKKI 11⅞ 90	75	103	0	9.53
PROCTER & GAMBLE 10 95	150	102⅞	+⅛	9.49
PRU.RLTY.SECS. 0 99	365	33⅞	+⅛	10.44

	Issued	Bid price	Chg on week	Yield
QANTAS AIRWAYS 8⅞ 96	97	91⅞	+⅛	10.10
QUEBEC PROV 13 90	150	107⅞	0	9.86
QUEENSLD.GVT. 11⅞ 89	100	104½	+⅛	8.89
RALSTON PURINA 11⅞ 95	150	105	+⅛	10.71
REYNOLDS R.J. 10⅞ 93	100	102⅞	+⅛	9.58
RICHARDSON-VICKS 11½ 93	125	104½	–½	10.35
ROCKWELL INT 9⅞ 90	200	102⅞	+½	8.71
SASKATCHEWAN 7 91	125	95⅞	+⅛	9.10
SASKATCHEWAN 8½ 91	150	98⅞	+⅛	8.98
SASKATCHEWAN 11⅞ 89	100	105⅛	0	8.87
SASKATCHEWAN 15 92	150	120⅞	–⅛	9.47
[illegible]				

	Issued	Bid price	Chg on week	Yield
NIPPON SEIKO 3⅞ 99	70	170⅞	–1⅞	–1.15
ROCKEFELLER CENTER 0 00	952	23⅞	–⅛	–40.55
SOUTHWEST AIRLINES 6⅞ 98	95	73⅞	–1⅞	128.25
SWISS BANK CORP 6⅞ 90	120	121½	–1	–10.01
TEXACO CAPITAL 11⅞ 94	500	98⅞	+4⅞	55.64
TOSHIBA CERAMICS 3 00	50	144⅞	+½	8.77
XEROX CORPN 5 88	75	95½	–⅛	179.19
[illegible]				

CONVERTIBLE BONDS	Issued	Bid price	Chg on week	Prem
[illegible]				
AMERICAN BANKERS 5⅞ 02	70	80⅞	–⅛	118.39
CANON 3 00	100	128⅞	–4⅞	–3.99
CITIZEN WATCH 3 00	50	146⅛	–2½	–12.51
EASTMAN KODAK 6⅞ 01	300	102⅞	–4½	17.13
ELDERS UK 5 97	75	98	+⅞	6.24
FUJITSU 3 99	100	171⅞	–9⅞	–3.28
GIBRALTAR SAVINGS 7⅞ 06	100	50⅞	–1⅞	67.71
INTERNATIONAL PAPER 5⅞ 02	200	76⅞	–4⅛	45.13
IU INTL CORPN 6⅞ 2002	75	73½	–⅞	48.99
LONG TERM CREDIT BK 1⅞ 02	200	95⅛	–1⅞	–1.93
MCA 5⅞ 02	300	67⅞	–3⅞	51.31
MITSUBISHI BK 1⅞ 02	300	103½	–2½	–2.65
NEWMONT MINING 7 01	100	103	–4½	22.57
NIPPON ELECTRIC 2⅞ 00	150	266	–9½	–2.87

BOND WARRANTS	Expiry Date	Bid price	Chg on week	Yield
AEGON INS 11⅞ 93	15/02/88	40½	+1⅞	9.81
CITICORP 8 96	01/10/88	4	–½	7.93
CREDIT SUISSE FAN 11⅞ 92	13/02/92	52	0	10.14
DEN NORSKE CREDIT 8 94	02/03/90	6	–1	7.86
DEN NORSKE CREDIT 8⅞ 96	08/08/89	9	–1	8.09
DENMARK 12⅞ 92	31/01/90	93⅞	+5½	9.92
FINNISH EXP CREDIT 12⅞ 91	21/11/89	89⅞	+3⅞	9.91
MITSUBISHI FIN 12⅞ 91	08/11/89	84⅞	+3⅞	9.90
NORDIC INV BANK 7⅞ 96	30/10/91	7	0	7.76
SEAGRAM (JOSEPH E) 12⅞ 94	23/11/89	65	0	10.67
TORONTO-DOMIN 12½ 91	05/04/88	76	0	10.05
WESTPAC BANKING 12⅞ 92	31/01/90	87⅞	+3⅞	10.16

STRAIGHT BONDS: Yield to redemption of the mid-price. Amount issued is expressed in millions of currency units except for Yen bonds, where it is in billions.
FLOATING RATE NOTES: US dollars unless indicated. Margin above six-month offered rate for US dollars. C.cpn=current coupon.
CONVERTIBLE BONDS: US Dollars unless indicated. Prem=percentage premium of the current effective price of buying shares via the bond over the most recent share price.
WARRANTS: Equity warrant prem=exercise premium over current share price. Bond warrant ex yld=exercise yield at current warrant price. Closing prices on DECEMBER 04

Nick Garnett and David Waller look at the sale of RHP's bearing business

Aiming at world targets with precision

THE SALE of **RHP's** bearing business, announced last week, is the second major change in the ownership structure of the UK's indigenously-owned bearing industry during the past few months.

Cooper Roller Bearings of King's Lynn, which employs 600 manufacturing bearings for heavy industry such as coal mining and power generation, was bought in October by an investor group headed by the Scottish-based Clairmont Ventures.

Cooper is probably the second largest British-owned bearing manufacturer after RHP. However, the RHP operation which has been purchased by a new company backed by City institutions is the only large British ball and roller bearing manufacturer with a global presence in a range of markets and applications.

The original business was put together in 1969 by the then Labour Government's Industrial Reorganisation Corporation out of three separate companies, Pollard, Ransomes and Marles, and Hoffman Manufacturing. Its ability – now under new owners – to stay ahead of its rivals will largely govern Britain's indigenously-owned stake in this gruellingly competitive industry.

The UK has a few other British owned producers apart from RHP and Cooper. Phoenix for example makes a limited range of solid cylindrical roller bearings in Tewkesbury. Other companies, like Wyko in Dudley near Wolverhampton, only make small quantities of specialist bearings, often for replacement.

The bulk of UK manufacturing though is made up of production plants owned by large globally-minded continental European, US and Japanese companies.

These include SKF of Sweden manufacturing at Luton, Torrington of the US – which has four UK production sites – and British Timken, the Northampton arm of the US Timken Group. Others include the West German companies FAG and Ina, and the American manufacturer Barden.

The total market for bearings in the UK is worth about £250m. However, most British-based production sites including those of RHP typically export 30 to 80 per cent of output.

RHP is the biggest producer in the UK and the new owners, who will retain the name, plan to reinforce that position.

At the same time, Mr Alan Bowkett, managing director of Doulton and Paul, a subsidiary of BET and who will lead the new business, is looking to float it on the stock market in about three years.

The RHP bearing business has annual sales of about £95m, profits of £10m and employs 4,000. Mr Bowkett has already set out his stall, adopting a number of growth policies from the previous management and adding some of his own.

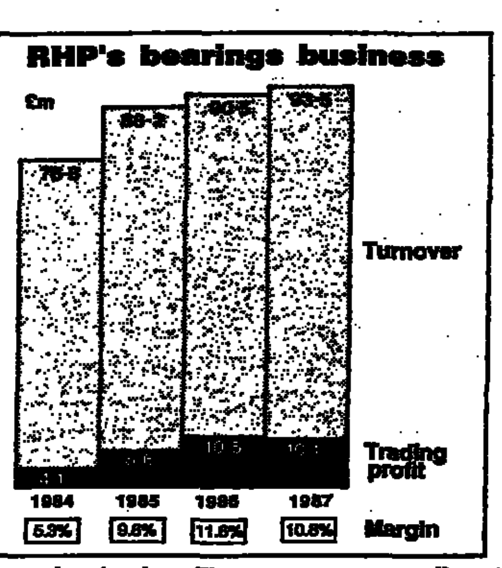
He wants to almost quadruple, for example, RHP's present turnover in precision bearings of £7m to £10m so that the company will command about half of the £70m worldwide precision bearing market.

Precision bearings are used in such applications as machine tools and Mr Bowkett is targeting Japan, and the Japanese machine tool industry in particular, as a main area for sales growth.

In bearings for the aerospace industry, RHP has a turnover of £13m-£14m and claims 50 per cent of the UK market, the second biggest market in the world after the US.

Used for mounting jet engines and helicopter gearboxes, these bearings have big sales in the US where Mr Bowkett believes RHP has potential for increasing its somewhat limited penetration.

Alan Bowkett



The company already sells to Rolls-Royce, the British aero-engine builder, and to Pratt & Whitney of the US, but has not been supplying to General Electric, the other American jet engine maker.

Some of these aims look ambitious but the new management at RHP plans to put the company on a better footing to meet this challenge.

RHP's rating in the City has always been rather lowly, partly because of the stock market hang up with investment. Since 1975, the company has been building up its electrical division, and in the 1987 figures, released last week, electricals profits exceeded those of bearings for the first time.

It was always assumed, perhaps rightly, that further growth in RHP's bearing business could only be fuelled by a programme of capital investment and further rationalisation.

This was, in fact, one spur for the sale of the bearings business where redundancy and rationalisation costs have been running at about £1m a year.

The new bearings management says it will be spending £3m to £4m a year on capital equipment, principally on electronic controls for its machine tools. It wants to cut RHP's very high lead time of nine months from orders to delivery.

"RHP looked to us as if it had lost its way five years ago, but they have done a really good job in the past few years," says one manager in the industry. "How they will do from now on will obviously depend on its new management."

Like most other Western producers, RHP has found the past 15 years or so very tough. It has revealed a new style and shape in the past few years which has been admired by other bearing manufacturers. During the past four years its turnover has risen from £77m and its profit margin from 5.3 per cent to 10.8 per cent.

The company was actually put together partly out of fear that existing British companies were not big enough to withstand foreign competition. SKF had made a hostile takeover bid for one of the three companies that eventually made up RHP.

In the 1970s and early 80s the European industry, as a whole, suffered merciless pressure from Japanese companies like NTN, Koyo, Nachi and NSK. "They frightened the life out of the Europeans," says Richard Pyles, sales and administration manager for Nadella, sales company for bearings made by Torrington and SNR of France.

This only added to the incestuous battle among the big American and European manufacturers.

European producers have made a series of successful anti-dumping claims with the EC against the Japanese. But this Japanese pressure helped to force a reshaping of the industry which is still continuing. For example, Torrington purchased the French bearing manufacturer Fafnir last year.

Some companies reacted to low margins by getting out of low cost commodity bearings – which the Japanese were concentrating on – and dramatically cutting their labour and closing plants. SKF's labour force in the UK tumbled from 6,500 in the mid 1960s to 2,300 in 1980 and 1,150 two years ago, but is now climbing.

Almost all of them rationalised their plant structures, concentrating on single source plants dedicated to specific lines.

RHP could not take these measures on a pan-European basis as its manufacturing is largely concentrated in the UK. However, in the past few years it has followed a similar route within Britain, concentrating aerospace bearings for example at Newark, and lube and flange bearings at the Stonehouse plant in Gloucestershire.

"The Japanese bubble has burst to some degree," says Mr Pyle. "There is now an uneasy peace with them."

In any case RHP has limited its exposure to the Japanese by reducing over a long period of time the importance of its industrial, commodity bearing operations.

This has also helped it to keep it away from some of the other structural pressures in the industry – which have included the decline of heavy engineering – which spelt disaster for big volume bearings in a switch to higher volume smaller and more precision bearings.

It is also fortunate to be out of most of the product areas where Romanian, Czechoslovakian and Polish bearing makers are now selling in Europe – allegedly below the purchase cost of steel.

The uniform view in the bearing industry is that the success of the new RHP rests largely in its own hands.

Transcontinental appoints Lazards after Banner buy

BY MIKE SMITH

Transcontinental Services Group, investment holding company, has appointed Lazard Brothers, the merchant bank, as advisor following the acquisition by Banner Industries, a US industrial company, of more than 35 per cent of its shares.

Last week Banner, supplier of aircraft parts and industrial products, told Transcontinental that it, and other parties acting in concert with it, had gained de facto control of the company. It indicated, however, that it did not intend to make an offer to remaining shareholders.

The appointment of Lazards is aimed at helping to protect the interests of minority shareholders.

In normal circumstances the Takeover Code rules require that anyone who acquires 30 per cent or more of a company must make a bid for the rest of the equity.

Although Transcontinental's only quotation is on the London Stock Exchange, it is incorporated in Curacao, the Netherlands Antilles. This means that shareholders, most of whom live in the UK, are not protected by the Takeover Code.

Transcontinental, which specialises in medium-term investment and is managed from New York, is holding meetings with Banner before deciding upon its next course of action. A statement is expected early this week.

Although institutions own most of the company's shares which are not in the hands of Banner or its associates, there are about 1,700 small shareholders.

Transcontinental, which has a market value of about £70m, expects to dispatch reports and accounts for the year ended March 31 1987 and the report for the following six months to shareholders on Wednesday.

Banner has held shares in Transcontinental for about a year, but only recently took the stake above 5 per cent.

FT Share Service

British & Commonwealth Holding Pref shares (Section:Trusts,Finance Land).

Campeau (Section: Canadians).

Record Holdings (Section:Industrials).

Video Tape Recording (Section:Third Market).

TR Pacific Inv. Trust (Section:Investment Trusts).

BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends. Official indications are not available as to whether the dividends are interims or finals and the sub-divisions shown below are based mainly on last year's timetables.

TODAY

Interims- Arlen, Avesco, Beaverco, Berkeley Group, Blyvooruitzicht Gold Mining, Cranswick Mill, Greenless Trott, Lyndon Property and Reversionary, Osborne and Little, Preedy, Reed Executive, Sterling Publishing, Triplex Lloyd.

Finals- S. & W. Berisford, Carlton Communications, Dobson Park Industries, Doctus, Durban Roodepoort Deep, East Rand Proprietary Mines, Wolverhampton and Dudley Breweries.

FUTURE DATES

Interims-	
Porter Chadburn	Dec 15
Stead and Simpson	Jan 14
Syltone	Dec 10
Finals-	
Bett Brothers	Dec 15
Pennine Resources	Dec 8

PENDING DIVIDENDS

Dates when some of the more important company dividend statements may be expected in the next few weeks are given in the followingtable. The dates shown are those of last year's announcements exceptwhen the forthcoming board meetings (indicated thus *) have been officially notified. Dividends to be declared will not necessarily be at theamounts in the column headed "Announcement last year."

	Date	Announcement last year
* Assoc Newsp	Jan 7	Final 4.5
Brit Land	Dec 17	Interim 1.25
* Carlton Comms	Dec 7	Final 5.4
* Charter Cons	Dec 9	Interim 4.0
* Dee Corp	Dec 8	Interim 3.0
* English China Clays	Dec 16	Final 8.25
GUS	Dec 11	Interim 8.0
* Grand Met	Dec 17	Final 6.25
Greenall Whitely	Dec 8	Final 3.2
Meyer Intl	Dec 9	Interim 3.0
Mountleigh	Dec 15	Interim 6.0
* Northern Fds	Dec 9	Interim 4.25
* Pilkington	Dec 10	Final 6.5
* Racal Elec	Jan 28	Interim .7885
* Thorn EMI	Dec 10	Interim 5.0
* Vaux	Dec 15	Final 8.32
* Wardle Storeys	Jan 8	Final 4.0

Parkdale in £15m purchase

BY MIKE SMITH

Parkdale Holdings, property investment and financial services company, is to buy **Clifford Barnett**, a property company which specialises in leisure developments, for a maximum of £15m.

It will pay an an estimated £3m in cash immediately but may pay up to another £12m plus interest depending on Clifford Barnett's profitability in the five years to April 1993.

Founded in 1985, Clifford Barnett designs and develops leisure complexes.

Recent projects include a swimming pool, restaurant and holiday timeshare complex at Keswick, in the Lake District, which has been developed in association with Allerdale district council.

The company is mid-way through developing a seafront complex in Southsea, Portsmouth, which is due to open next July.

Clifford Barnett, which is led by chairman Mr Cliff Barnett, an architect, and managing director Mr John Carroll, a former chief planning officer for Blackpool, made pre-tax profits of of £18,000 in the year to last March. Taxable profits in the six months to September rose to £453,000. Net assets at the end of the period were £289,000.

The initial consideration will depend on Clifford Barnett's performance in the 12 months to next March and are subject to a maximum of £3.25m.

Parkdale also confirmed over the weekend the appointments of Mr Geoffrey Almeida and Mr Jeremy Priestley as directors.

Select over £1m midway

Select Appointments, one of the UK's fastest growing recruitment agencies, reported record results in its first interim statement. In the six months to October 5 1987, pre-tax profits were £1.19m compared with £491,000.

Turnover rose substantially from £4.43m to £8.9m. An interim dividend of 1p net is being paid on January 29.

The most significant aspect of the group's performance had been the continuing organic development of its UK operations.

Delta-Galil postpones

DELTA-GALIL Industries, the Israeli textile manufacturer which had intended to raise capital on the London Stock Exchange this month, has decided to postpone its plans for another year. It would have been the first Israeli enterprise to go to the London Stock Exchange in nearly 30 years.

Mr Dov Lautman, Delta's managing director, who also serves as the president of the Israeli Manufacturers Association, said the decision was taken in response to the recent sharp fall in prices on the exchange and had nothing to do with the company's internal situation. Delta had intended to raise some £13m in London.

Close to half of the company's total sales, which in 1986 reached US$84m and are forecast to rise to $100m this year, have traditionally come from the UK. In addition, Delta's sole production plant outside Israel, which manufacturers T-shirts under the Pierre Cardin label, is based in Scotland.

The textile manufacturer, which has become Western Europe's second leading supplier of men's underwear, earned US$4m last year.

CONSTRUCTION CONTRACTS

Extending Spa Hotel at Bath

SIR ROBERT McALPINE & SONS has been awarded an £8.2 m design and build contract by Trusthouse Forte to refurbish and extend the Spa Hotel in Bath.

The contract, comprising extensive refurbishment of the Grade II listed building and the construction of a new accommodation wing and leisure centre, will provide Trusthouse Forte with a 120 bedroom five-star hotel.

The new five-storey accommodation wing and leisure centre will have an exterior facade of Bath stone to complement the original building. It will provide additional bedrooms, dining rooms, function rooms, and a leisure centre with swimming pool, gymnasium, saunas and a jacuzzi.

The contract includes the installation of five passenger lifts, air conditioning and central heating. External work comprises landscaping of the two hectares of surrounding parkland and the provision of tennis courts and car parking for 150 vehicles.

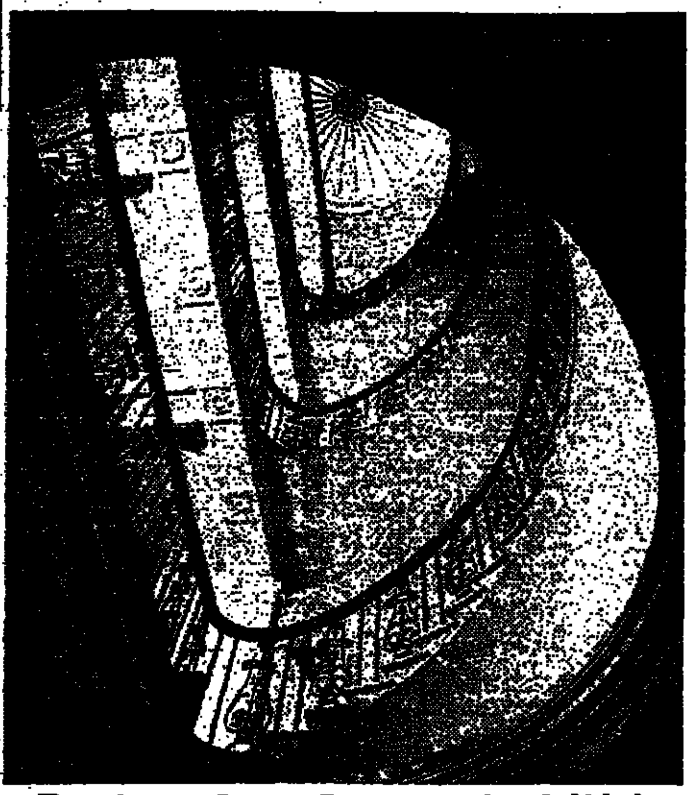
£10m Northop bypass in Clwyd

ARCA CONSTRUCTION has been awarded two contracts totalling nearly £18m. The Welsh Office has accepted an ARC tender of just over £10m for the construction of the A55 Northop bypass in Clwyd.

The contract involves building about 5kms of 9.3 metres carriageway together with 2.5kms of side roads. The project also includes construction of a grade-separated junction and four bridges to carry side roads and access roads over the bypass. Work is scheduled to take 91 weeks to complete.

ARC Construction's second contract, valued at £7.63m, is to build for the Property Services Agency a military training village on Salisbury Plain. The work comprises some 87 buildings of 18 different types, associated works and a 1½ mile long access road. The contract will be completed in two years.

Courtauld Institute to have new home



The staircase at Somerset House, soon to be refurbished

TROLLOPE & COLLS CITY has won a £7.5m contract to refurbish the Fine Rooms of the north block of Somerset House and repair and clean the facade, which faces the Strand, for the University of London.

Work will be completed in March 1989 (70 weeks), and the Courtauld Institute will, for the first time, be housed under one roof and be able to display its hitherto seldom seen collection of impressionist and post-impressionist paintings.

The Courtauld Institute was founded by textile magnate Samuel Courtauld in 1931. Its academic and teaching facilities have been housed in 20 Portman Square London W1.The galleries have been located in Woburn Square and space is so limited that only one third of the collection of paintings can be viewed at any one time.

The Courtauld Institute houses the University of London's art collection, and is comparable with the internationally famous collections at the Fitzwilliam Museum in Cambridge and the Ashmolean in Oxford.

The re-housing of the Courtauld Institute and the opening up of the Fine Rooms of the north block of Somerset House are seen as events of national and international importance. The collection of paintings, four libraries, and the Fine Rooms will be open to the public for the first time.

In the case of the north block, that means since 1780 when it was completed for the Royal Society, the Royal Academy and the Society of Antiquaries, after a design by William Chambers.

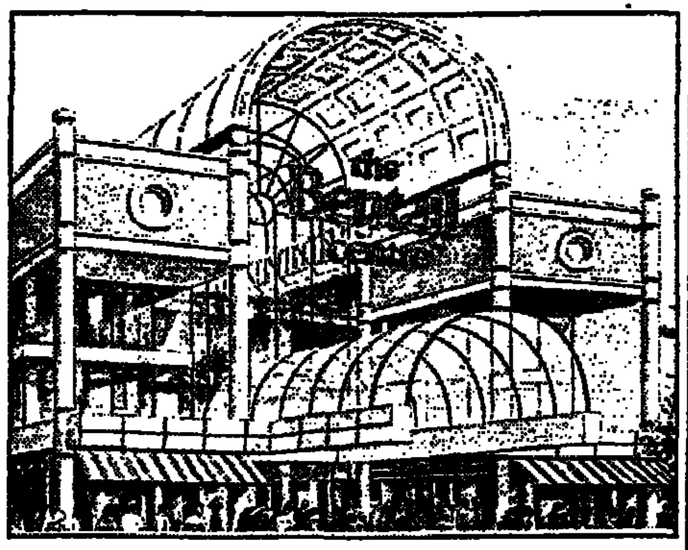
Architect Mr Christopher Firmstone has been commissioned to handle the adaptation and refurbishment of the Fine Rooms for the special requirements of the Courtauld Galleries.

The practice of Green Lloyd Architects is responsible for the Institute's requirements, which include a lecture theatre for 120 people, housing the four libraries, and three studios where students will be taught to restore paintings and frescoes.

The total cost of the Courtauld Institute project, including the work at Somerset House, has risen to over £8m, more than twice as much as when the original appeal for £3m was launched in 1983. The £4.75m raised so far will enable the work to start but £1.25m is still needed. Further funds will come from the University Grants Committee.

House-and-garden centre

M J GLEESON GROUP has been awarded a £2.7m contract to build for Homebase - a subsidiary of J Sainsbury - a new house-and-garden centre at Purley Way, Croydon, Surrey. Gleeson is scheduled to complete the 63 x 58 metre single-storey centre, together with the associated car park, service yard and external landscaping, in September 1988.



Kingston centre scheme

MOWLEM MANAGEMENT has been appointed by Norwich Union as management contractors of the £31m first phase of the £130m development project. By July 1990 the new 200,000 sq ft Bentalls Department Store will be ready to open its doors. When it is finished, Norwich Union will build phase 2, consisting of a further 250,000 sq ft of shop units together with a food court, restaurants and a leisure facility, all arranged on four levels around central atrium. Phase 2 is due to be completed and trading by Christmas 1992. The phasing of the scheme will enable Bentalls to continue trading throughout the redevelopment period. The well-Known Aston Webb facade which has become the hallmark of the storewill be retained as part of the Bentall Centre, while a new interior will be created.

US Embassy in Guyana

A joint venture of **EBASCO SERVICES INC** and **TAYLOR WOODROW INTERNATIONAL** has signed a $10.4 m (£5.78m) contract with the US Department of State to build a new embassy in Georgetown, Guyana.

Work on the embassy, which will have the latest technology for added protection of US personnel against potential terrorist attack, will start in early December with completion scheduled for December 1989.

The building will have a reinforced concrete frame on piled foundations and will have brick external cladding. The contract includes ancillary buildings and such external works as a security perimeter wall, as well as internal services.

Taylor Woodrow International is part of the International Taylor Woodrow Group of construction, engineering, property development and homebuilding companies.

Ebasco Services Inc, an ENSERCH engineering and construction company based in New York, provides engineering consulting, environmental, construction, quality assurance and advanced technologies to government agencies, electricity utilities, and energy-intensive industries throughout the world.

£18m orders for Trentham

TRENTHAM, the Berkshire-based building and civil engineering group recently acquired by Egerton Trust, has been awarded contracts totalling £18m.

Design and build projects account for nearly half the total value of the new work and include a £4m chill store distribution centre at Paddock Wood in Kent for M & W Mack, to be completed in 40 weeks. The centre, which is being project managed by BOC Distribution Service, will comprise three chill stores, a packing area and two-storey offices.

At Hills Road, Cambridge, Trentham has secured a contract valued at more than £3m from Unex Technical Services to construct three-storey offices and a multi-storey car park. Work on the 66-week programme is due to start soon.

In Reading, at Suttons Park Avenue, off the London Road, the group is to construct a high-technology development of two storeys for Slough Properties, under a contract worth just over £2m.

Nearer London, on the Bath Road opposite Heathrow Airport, Trentham is building 35,000 sq ft of prestige air-conditioned three-storey offices for Chase Property Holdings under a £3.5m contract over 60 weeks.

Other million-plus projects to be undertaken by Trentham include high-technology office accommodation at Farnham Road, Slough, to be constructed under a 30-week contract worth £1.8m for Slough Trading Estate; and for Fortescue Properties, Winchester, Trentham is to build offices and sheltered housing in a £1.9m contract.

FINANCIAL TIMES STOCK INDICES

	Dec. 4	Dec. 3	Dec. 2	Dec. 1	Nov. 30	Nov. 27	1987 High	1987 Low	Since Compilation High	Since Compilation Low
Government Secs.	89.58	89.97	89.85	89.76	90.28	89.95	93.32	83.73	127.4	49.18
Fixed Interest	96.60	96.85	96.39	96.38	96.84	96.46	99.12	90.23	105.4	50.53
Ordinary	1262.7	1263.6	1266.9	1249.8	1250.9	1308.2	1926.2	1232.0	1926.2	49.4
Gold Mines	329.4	337.0	341.3	338.3	352.0	320.0	497.5	261.6	734.7	43.5
FT-Act All Share	795.96	800.06	801.84	795.51	796.31	831.00	1238.57	784.81	1238.57	61.92
FT-SE 100	1582.8	1588.4	1590.3	1578.5	1579.9	1651.6	2443.4	1565.2	2443.4	986.9

LONDON RECENT ISSUES

EQUITIES

Issue Price p	Amount Paid up	Latest Renunc. date	1987 High	1987 Low	Stock	Closing Price p	+ or -	Net Div.	Times Cov'd	Gross Yield	P.E. Ratio
§55	F.P.	-	58	55	‡Allied Restaurants 5p	58					
330	120	-	88	71	British Petroleum	72½		N12.5	1.5	6.1	14.0
†	F.P.	-	268	233	English & Caledonian Inv.	235	+2	-	-	-	-
†	F.P.	-	152	100	Hard Rock Intl. 2p	125	-5	L1.53	3.3	1.7	22.5
†	F.P.	-	125	85	Do 'A' (Restricted Vtg)2p	85	-15	L1.53	3.3	2.5	15.1
-	F.P.	-	180	170	Mayne Nickless	175	+5	Q38.5c	2.0	3.1	15.7
§75	F.P.	-	78	76	Nestor-BNA 10p	76		R1.85	2.5	3.3	16.5
§28	F.P.	-	20	19	‡Pathfinders Grp. 5p	19	-1	b0.29	3.9	2.1	16.6
§114	F.P.	-	121	115	‡Sykes-Pickavant 10p	116		R5.25	2.0	6.1	11.1
§70	F.P.	-	73	66	‡Trevian Hldgs. 10p	66		-	-	-	-

RIGHTS OFFERS

Issue Price p	Amount Paid up	Latest Renunc. Date	1987 High	1987 Low	Stock	Closing Price p	+ or -
300	Nil	-	52pm	19pm	‡Applied Holographics 5p	20pm	-1
♦	Nil	-	4¼pm	¾pm	City & Foreign	2¼pm	+½
80	Nil	-	460pm	205pm	Press Tools	250pm	
85	Nil	-	½pm	¼pm	‡RKF Grp. 10p	½pm	

Renunciation date usually last day for dealing free of stamp duty. a Annualised dividend. b Figures based on prospectus estimates. d Dividend rate paid or payable on part of capital, cover based on dividend on full capital. g Assumed dividend and yield. L Estimated annualised dividend, cover and p/e based on latest annual earnings. N Dividend and yield based on prospectus or other official estimates for 1987. Q Gross. R Forecast annualised dividend, cover and p/e ratio based on prospectus or other official estimates. W Pro Forma figures. Z Cover does not allow for shares which may also rank for dividend at a future date. Nu P/E ratio usually provided. ¶ Issued by tender. ‡ Offered to holders of ordinary shares as a rights. † Introduction. § Placing price. †† Reintroduction. ♦ Issued in connection with reorganisation merger or takeover. ‡ Allotment price. ‡ Unlisted securities market. ♦ Official London listing. □ Including warrants entitlement. * Third Market.

FIXED INTEREST STOCKS

Issue Price £	Amount Paid up	Latest Renunc. Date	1987 High	1987 Low	Stock	Closing Price £	+ or -
5	F.P.	-	75p	68p	*Abbeicoat 5¼pc. Cm.Cv.Rd.Pf 2006	68p	-2
-	-	-	99½	90½	Ansbacher(H.)9pc Cm.Sub.Ln.1998	97½	
100	£10	21/1	14	10⅝	Chester Wtr. Wks. 11⅝pc Rd.Db.98/2000	12	
100p	F.P.	-	87p	63p	Helical Bar 5¼pc. Cm.Cnv.Red.Pf.2012	65p	
-	F.P.	-	101⅜	99¾	N'wide Anglia 10⅝pc 12.9.88	101⅛	+⅛
-	F.P.	-	101⅛	99¾	Do. 10⅛pc 26.9.88	101⅛	+⅛
-	F.P.	-	101⅛	100⅜	Do. 10⅛pc 31.10.88	100¾	+⅛
-	F.P.	-	100¾	99⅝	Do. 9⅞pc 28.11.88	100⅛	+⅛
♦	F.P.	-	109½	99½	Next 5¾pc Cnv. 2003	102½	
§100	F.P.	-	115p	109½p	Record Hldgs. 10pc Cnv. Red. Prf. £1	110p	
100	F.P.	-	95p	72p	‡Shield Grp. 5.84pc Cnv. Cum. Red. Pf.	72p	-3
-	F.P.	13/11	82p	70p	Utd. Scientific 5¼pc Cnv. N-V. Pref.	78p	-1
100p	F.P.	-	108p	100p	‡Whitaire Fixed Rate Cnv.Cum.Red.Pfr.	105p	-5

FT CROSSWORD No.6,501

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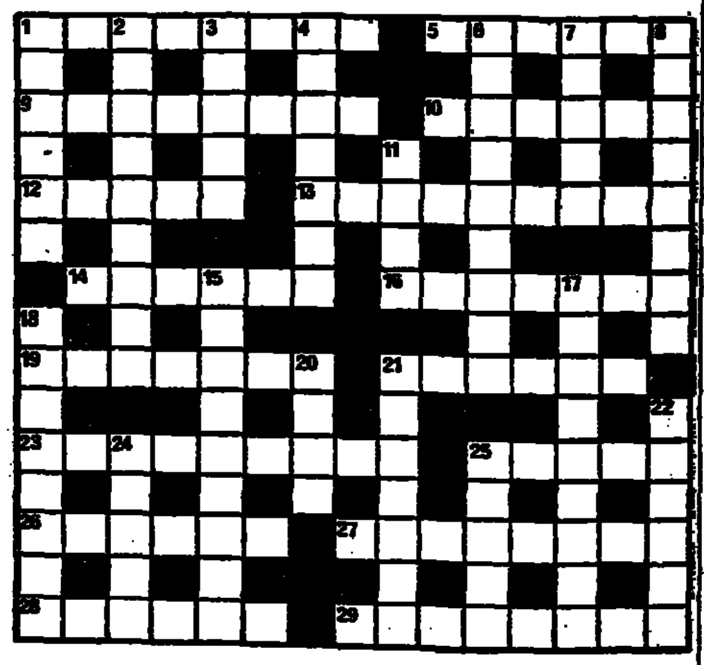


ACROSS

1 The strikers' case? (8)
5 Take exception to an article (6)
9 Show disdain for Winnie's duplicity (4-4)
10 Fall back in common mutual defence (6)
12 Composition makes easy point (5)
13 Grit a musician needs, getting the bird (9)
14 Holidays that fall in the autumn (6)
16 A rising of workers (7)
19 Turn one out, though it's free of charge (7)
21 One is supposed to look better for eating it (6)
23 Trying time for a beginner (9)
25 Store of ready money, we hear (5)
26 Insolence of the centre right is inviting disaster (6)
27 Comes to a settlement under the influence of drugs (8)
28 Big fellows I beat in the back street (6)
29 Offer to support and also to reform (8)

DOWN

1 Clean up on the favourite, darling! (6)
2 Not a single female in this outfit (9)
3 Contented to lie very quietly in dry grass (5)
4 More than one player is in new boots (7)
6 Sad boy seen when a vessel is about to leave (4,5)
7 Fit of wild pique (5)
8 Plant holders? (8)
11 Indian currency goes up and down (4)
15 A change of theme? (9)
17 Press angry with German award (4,5)
18 Picture may take a goalkeeper by surprise (8)
20 Innocent abroad? (4)
21 Preserve grim honesty (7)
22 The French always turn up for this show (6)
24 Go round in high circles (5)
25 Restrict king in temporary quarters (5)

The solution to last Saturday's prize puzzle will be published with names of winners next Saturday.

FT UNIT TRUST INFORMATION SERVICE

AUTHORISED UNIT TRUSTS

[illegible]

FT UNIT TRUST INFORMATION SERVICE

INSURANCES

Continued on next page

FT UNIT TRUST INFORMATION SERVICE

Phoenix Assurance Co Ltd
Phoenix House, Redcliff Hill, Bristol 0272 294941
Life Assurance Funds

Wealth Assur.	341.6	359.7	—	–
Eb'r Ph Eq.	304.1	323.2	—	–
Pension Plan Funds				
Phoenix				
UK Equity Acc.	141.6	149.0	−1.7	–
International Acc.	111.4	117.2	−1.9	–
Property Acc.	120.2	126.5	+0.1	–
Fixed Interest Acc.	149.9	157.7	−1.4	–
Money Acc.	132.0	138.9	+0.7	–
Bldg. Soc. Link Acc.	131.0	137.8	+0.1	–
Special Mnged. Acc.0	130.7	137.5	−1.5	–
Phoenix/Framlington				
Intnl. Growth Acc.	71.5	75.2	−0.4	–
Amer. & Gen. Acc.	65.5	68.9	−0.4	–
Capital Tst. Acc.	152.0	160.0	−0.8	–
Japan & Gen Acc.	147.8	155.5	−1.4	–
American Turn. Acc.	65.8	69.2	−0.4	–
Recovery Tst. Acc.	136.2	143.3	−0.2	–
Special Mngd Acc.	122.5	128.9	−0.6	–
Phoenix/GT				
International Acc.	108.0	113.6	−0.7	–
US & General Acc.	77.0	81.0	−0.4	–
Amer Spec Sits Acc.	52.0	54.7	−0.2	–
Japan & General Acc.	146.1	153.7	−0.3	–
Far East & Gen. Acc.	122.4	128.8	−1.2	–
UK Capital Acc.	140.9	148.3	−1.0	–
European Acc.	121.4	127.7	+0.2	–
Special Mngd. Acc.	208.8	214.5	−0.4	–

Pioneer Mutual Insurance Co Ltd
16 Crosby Rd, N. Waterloo, Liverpool 051-928 6655

Managed Fund	245.3	258.3	—	–
Man Pens Inc & Cap Fd.	308.5	324.8	—	–
Money Fund	110.2	116.0	—	–
Pens. Mngd Fd (Init)	74.1	78.0	—	–
Pens Mngd Fd (Acc)	82.1	86.5	—	–
Pens FT30 Fd (Init)	112.9	118.9	—	–
Pens FT30 Fd (Acc)	125.0	131.6	—	–
Pens O'seas MgFd(Init)	47.6	50.2	—	–
Pens O'seas MgFd(Acc)	52.8	55.6	—	–
Pens Fxd Int Fd (Init)	106.4	112.0	—	–
Pens Fxd Int Fd (Acc)	117.8	124.0	—	–
Pens Deposit Fd (Init)	100.3	105.6	—	–
Pens Deposit Fd (Acc)	111.1	117.0	—	–

Premium Life Assurance Co Ltd

Prudential Assurance Co
Holborn Bars, London EC1N 2NH 01-405 9222
Prufund

Managed Dec 02	180.6	188.2	—	–

Prudential Holborn Life Ltd
Portland Hse, Stag Place, Ldn SW1E 5BH 01-630 1661

Managed Fd.	396.3	417.2	+2.7	–
Equity Fd.	784.7	826.0	+9.0	–
Intnl. Fd.	276.1	290.7	—	–
Fixed Int. Fd.	356.5	375.5	+0.7	–
Prop. Fd.	295.9	311.5	—	–
Cash Fd.	231.6	243.8	—	–
Pacific Basin Fd.	152.6	160.7	—	–
North American Fd.	105.9	111.5	—	–
European Fd.	132.7	139.7	—	–
Holborn Balanced Gwth Fd	–	–	—	–
Holborn Strategic Gwth Fd	–	–	—	–

Prudential Holborn Pensions Ltd
Portland Hse, Stag Place, Ldn SW1E 5BH 01-630 1661

Managed	421.7	443.9	−0.9	–
Equity	580.2	611.8	−2.2	–
Global Equity	171.8	180.9	−0.6	–
Fixed Interest	366.8	386.2	+0.8	–
Property	296.6	312.3	+0.1	–
Cash	135.4	142.6	—	–
Index Linked Gilt	166.0	174.8	+4.4	–
Guaranteed	9.25	10.25	—	–
International Money	182.2	191.8	+0.2	–
North American Fd	50.2	52.9	—	–
Japanese Fund	98.19	103.3	—	–
European Fund	68.5	72.2	—	–
Special Situations Fd	79.2	83.4	—	–
Communications Fund	68.4	72.0	—	–
Smaller Cos Fund	81.7	86.0	—	–

Prudential Pensions Limited
Holborn Bars, London EC1N 2NH 01-405 9222

MANAGEMENT SERVICES

OFFSHORE AND OVERSEAS

FT UNIT TRUST INFORMATION SERVICE

LONDON SHARE SERVICE

BRITISH FUNDS

BRITISH FUNDS – Contd

FOREIGN BONDS & RAILS

Interest Due	Stock	Price £	Last xd	Div % Gross	Yield
1Apr 1Oct	Greek 7pc Ass.'9j	45xd	2.11	3.50	17.42
1Feb 1Aug	Do. 6pc 28 Stb. Ass.	45	3.8	3	16.37
1Apr 1Oct	Do 4pc Mixed Ass.	45	1.10	2	14.44
1May 1Nov	Hung. '24 Ass	64	9/85	2.75	14.16
31May 30Nov	Hydro Quebec 15pc 2011	135¼	3.6	15.00	10.82
31Jan 31Jly	Iceland 14½pc Ln 2016	123¾	9.7	14.50	11.66
1Mar 1Sept	Ireland 9¾pc '91–96	99	10.8	9.98	10.67

INT. BANK AND O'SEAS GOVT STERLING ISSUES

CORPORATION LOANS

COMMONWEALTH & AFRICAN LOANS

LOANS

AMERICANS

Dividends Paid	Stock	Price £	Last xd	Div Gross	C'vr	Y'ld Gr's
Fb My Ag Nv	Abbott Laboratories	25⅞	9.10	$1.00	–	2.4
F My Ag N	Alcoa $1	22⅝	28.4	$1.20	–	3.0
–	Allegheny & W $0.01	490p	–	30c	–	3.5

Continued on next page

Money Market Trust Funds

Money Market Bank Accounts

LONDON SHARE SERVICE

AMERICANS – Contd

Dividends Paid	Stock	Price £	Last xd	Div Gross	C'vr	Y'ld Gr's
My Jn Se De	RJR Nabisco Inc.	24¾	25.10	$1.60	—	3.7
Jan Apr Jly O	Rep NY Corpn $5	25	10.9	$1.16	—	2.9
Mr Jn Se De	Rockwell Intl. $1	9¼	9.11	66c	—	4.1
Oc Ja Ap Jly	Sara Lee $1(1/3)	17¼xd	[illegible]	$1.00	—	3.3
Mr Ju Se De	Saul (B. F.) $1	[illegible]	10.9	20c	—	1.3
Fb My Ag No	Southwestern Bell $1	18¾	7.7	‡$2.32	—	7.1
—	Staley Continental	11	—	80c	—	4.2
Mr Ju Se De	Sun Co. Inc. $1	26	05.10	$3.00	—	6.6
Ma Ju Se De	TRW Inc. $0.625	22¼xd	11.8	‡$1.60	—	4.2
Mr Jn Sp Dc	Tenneco $5	22¼xd	11.8	$3.04	—	7.9
June Dec	Do. 10pc Ln.Stk. 91-5	155xd	[illegible]	10%	—	¶4.7
Mr Je Se De	Texaco $6.25	17¾xd	31.7	$3.00	—	9.8
Mr Ju Se De	Time Inc. $1	37⅝xd	22.8	$1.00	—	1.5
Ja Ap Jy Oc	Tracor $0.33(1/3)	17¼xd	16.9	40c	—	1.3
Ja Ap Ju Oc	Transamerica $1	16⅝xd	[illegible]	$1.84	—	6.4
Fe My Au No	Transworld Corp $5	572p	11.11	20c	—	2.0
Mc Je Se De	TRINOVA Corp.	14	9.11	56c	—	2.3
Mr Je Se De	♥USX $1	15¼	30.10	$1.20	—	4.5
Ag Nv Fb Jn	Union Carbide $1	9⅞xd	4.8	$1.50	—	8.7
Mr Jn Sp Dc	Utd. Technologies	17¼xd	19.5	$1.40	—	4.7
Fb My Ag No	US West‖	27	13.4	$3.28	—	7.0
—	Waste Management $1	18⅛	—	—	—	—
—	Whirlpool $1.0	12⅞	—	—	—	—
Mr Je Se De	♥Woolworth $3½	16⅛	19.11	$1.32	—	4.6

CANADIANS

Dividends Paid	Stock	Price £	Last xd	Div Gross	C'vr	Y'ld Gr's
—	ABM Gold Corp ‖	290p	—	—	—	—
—	♥Abbot Energy Corp.	23¼p	—	—	—	—
—	♥Amer. Barrick Res.	11¼	—	—	—	—
—	American Lightwave	6¼p	—	—	—	—
—	♥Armeno	[illegible]	—	—	—	—
—	Augmitto Explo.	[illegible]	—	—	—	—
Fb My Ag Nv	Bk. Montreal ‖	11¼xd	9.11	$2.00	—	7.8
Ja Ap Ju Oc	Bk. Nova Scot. ‖	580p	23.9	72c	—	6.3
Ap Jy Oc Ja	BCE ‖	15	10.9	$2.40	—	7.0
May Nov.	♥Bow Valley ‖	533p	15.12	♦40c	—	3.3
Ja Ap Jy Oc	♥Brascan ‖	10¼	28.10	88c	—	3.8
—	♥Bralorne Res.	285p	—	10c	—	1.5

[illegible]

BANKS, HP & LEASING

[illegible]

Hire Purchase, Leasing, etc.

[illegible]

BEERS, WINES & SPIRITS

[illegible]

BUILDING, TIMBER, ROADS

[illegible]

BUILDING, TIMBER, ROADS – Contd

[illegible]

CHEMICALS, PLASTICS

[illegible]

DRAPERY AND STORES

[illegible]

DRAPERY AND STORES – Contd

[illegible]

ELECTRICALS

[illegible]

ENGINEERING

[illegible]

ENGINEERING – Contd

[illegible]

FOOD, GROCERIES, ETC

[illegible]

HOTELS AND CATERERS

[illegible]

INDUSTRIALS (Miscel.)

[illegible]

INDUSTRIALS (Miscel.) – Contd

[illegible]

INDUSTRIALS (Miscel.) – Contd

[illegible]

INSURANCES

[illegible]

LONDON SHARE SERVICE

INSURANCES — Contd

Dividends Paid	Stock	Price	Last xd	Div Net	C'vr	Y'ld Gr's	P/E
Oct. June	Pearl Group 5p	343	14.9	†10.9	—	4.2	—
Nov. May	Prudential	755	12.10	†29.0	—	5.3	—
Nov. May	Refuge 5p	328	14.9	15.75	—	5.8	—
Jan. May	Royal	323	28.9	†h15.5	—	5.7	—
—	Saltire Ins. Inv.	75	—	—	—	—	—
April Oct.	Sedgwick Group 10p	198	14.9	12.0	1.7	8.7	8.0
May Nov	Stenhouse J. 10p	148	14.9	†9.0	2.0	8.3	8.2
Mar Sept	Sturge Hldgs 20p	325	27.7	†6.0	2.5	2.5	21.3
Jan. July	Sun Alliance	760	26.10	†23.5	—	4.2	—
June Nov.	Sun Life 5p	805	28.9	†28.5	—	4.4	—
April	Taisho M EDR	[illegible]	25.3	[illegible]	—	1.0	—
Fb My Au Nv	Torchmark $1.00	[illegible]	13.09	Q$1.00	—	4.6	—
Nov. May	Trade Indemnity	355	28.9	14.3	—	3.7	—
Mr Je Sp De	Travelers $1.25	£17¾	28.7	$2.28	—	7.4	—
—	USF & G Corp $2.50	[illegible]	22.08	Q$2.48	—	8.8	—
Dec. June	USLIFE Corp. $1.0	£15¾	[illegible]	Q$1.28	3.2	4.7	6.7
June Nov	Utd Friendly B 10p	538	12.10	21.0	—	5.0	—
May Nov	Willis Faber 12½p	287	28.9	†10.75	2.4	7.1	7.9
Mar. July	Windsor Secs. 10p	64	22.12	†0.7	1.9	1.9	—

LEISURE

MOTORS, AIRCRAFT TRADES

Commercial Vehicles

Components

Garages and Distributors

NEWSPAPERS, PUBLISHERS

PAPER, PRINTING, ADVERTISING

PAPER, PRINTING, ADVERTISING — Contd

PROPERTY

SHIPPING

SHOES AND LEATHER

SOUTH AFRICANS

TEXTILES

TEXTILES — Contd

TOBACCOS

TRUSTS, FINANCE, LAND

Investment Trusts

TRUSTS, FINANCE, LAND — Contd

Finance, Land, etc

OIL AND GAS

OIL AND GAS — Contd

OVERSEAS TRADERS

PLANTATIONS

Rubbers, Palm Oil

Teas

MINES

Eastern Rand

Far West Rand

O.F.S.

Diamond and Platinum

Central African

Finance

Australians

MINES — Contd

Tins

Miscellaneous

THIRD MARKET

NOTES

REGIONAL & IRISH STOCKS

IRISH

TRADITIONAL OPTIONS

3-month call rates

Industrials

Property

Oils

Mines

A selection of Options traded is given on the London Stock Exchange Report Page

DIARY DATES

Trade Fairs and Exhibitions: UK

December 7-10
Royal Smithfield Show & Agriculture Machinery Exhibition (01-235 0315)
Earls Court

December 8-11
International Bus, Truck and Car Product and Manufacturing Technology Exhibition and Conference - AUTOTECH (021-780 4171)
NEC,Birmingham

December 18-19
Cash and Carry Fashion Fair (01-727 1929)
Kensington Town Hall

January 6-17
London International Boat Show (0932-854511)
Earls Court

January 7-10
Holiday and Travel Fair (021-780 4171)
NEC,Birmingham

January 9-14
International Toy Fair (01-226 6653)
Harrogate

January 10-14
International Lightshow Exhibition (05884 658)
Olympia

January 17
Antiques and Collectors Fair (01-883 7061)
Alexandra Palace

January 19-22
Which? Computer Show (01-891 5051)
NEC,Birmingham

January 22-24
Holiday Exhibition (0895 58431)
Alexandra Palace

January 26-28
Hirex Exhibition (01- 660 8008)
Wembley Conference Centre

January 30-February 3
Btitish International Toy and Hobby Fair (01-701 7127)
Earls Court

Overseas Exhibitions

December 9-15
Optics and Glass Exhibition (01-439 4452)
Beijing

December 10-15
Heating, Refrigerating and Air conditioning Exhibition- INTERCLIMA (01- 225 5566)
Paris

January 10-13
Middle East Electricity Exhibition (01-935 8537)
Dubai

January 13-16
International Home and Household Textiles (01-734 0543)
Frankfurt

January 13-19
Hong Kong Toy Show (01-930 7955)
Hong Kong

January 14-18
International Supplies and Materials for the Furniture Industry - APPROFAL - and Take-away Goods for the Home Exhibitions - INTERKIT (01-225 5566)
Paris

January 22-29
Bahrain Fair (01-486 1951
Bahrain

January 22-24
International Clothing and Footwear Exhibition - CYPROMODE (01-734 4791)
Nicosia

January 29- February 7
International Green Week (01-930 7251)
Berlin

Business and Management Conferences

December 7
CBI Conferences: Winning partnerships - success through academic/industry collaboration (01-379 7400)
Centre Point, London WC1

December 7-8
The Royal Institute of International Affairs: Energy 1987 - The new market equilibrium? (01-930 2233)
10, St James Square,London,SW1

December 9-10
Institute for International Research (two one-day conferences): Cutting your trading costs through effective risk management and settlement procedures; Can technology develop and improve your dealing activities and investment decisions? (01-434 1017)
Noga Hilton,Geneva

December 9
The Institute for Fiscal Studies: North Sea taxation for the 1990's. (01-636 3784)
St Ermins Hotel, London SW1

December 10
The Economist: Corporate culture - its contribution to profitability and competitiveness (01-839 7000)
Park Lane Hotel,London W1

December 11
CBI Conferences: Finding money in Brussels for British business (01-379 7400)
Centre Point,London

December 16
CBI Conferences/ Leicester University: Fire safety - a teach-in on part 1 of the Fire Safety and Safety of Places of Sport Act (01-379 7400)
Centre Point, London

January 8
Lea, Storey & Co: Total quality management and the customer (0272 211964)
Redwood Lodge Hotel,Bristol

Anyone wishing to attend any of the above events is advised to telephone the organisers to ensure that there have been no changes in the details published

FINANCIAL

TODAY

COMPANY MEETINGS-
Arenson, Lincoln House, Colney Street, St Albans, Herts, 10.30
Paterson Zoch., Holiday Inn Crown Plaza, *Peter Square, Manchester, 12.00*

BOARD MEETINGS-
Finals:
Berisford (S. & W.)
Carlton Communications
Dobson Park
Doctus
Granada
Stakis
VPI Group
Wolv. & Dudley
Interims:
Arlen
Avesco
Beaverco
Cranswick Mill
Crosby (J.)
Gold Greenless Trott
Lynton Prop. & Rev.
Osborne & Little
Preedy
Reed Exec.
Sterling Pub.
Triplex Lloyd

DIVIDEND & INTEREST PAYMENTS-
Burford Grp. 0.3p
Cons. Gold Fields Gtd. Flg. Rate Nts. 1995 £130.89
Enserch 20cts.
Hammerson 3p
Do. A 3p
Laird Grp. 3.1p
Lockheed 35cts.
Sweden Flg. Rate Nts. 2000 $395.05
Town & City Props. 7½% Mtg. Deb. 97/02 3.375pc
Yorklyde 2.75p

TOMORROW

COMPANY MEETINGS-
Majedie Invs., The City Conference Centre, 76 Mark Lane, E.C., 12.15

BOARD MEETINGS-
Finals:
Burns-Anderson
Hoskyns
Pennine Resources
Redfearn
Interims:
Braithwaite
Chapman Inds.
Creighton Labs.
Dee Corp.
Deelkraal
Doornfontein
Driefontein
Harland Simon
Intl. Information Tech.
Kloof Gold
Libanon
Optometrics
Ventersport
Vlakfontein
Wardell Roberts

DIVIDEND & INTEREST PAYMENTS-
Bank of Ireland Und. Flg. Rate Prim. Cap. Nts. $191.16
Chase Manhattan Flg. Rate Nts. 2009 $188
HK & Shang. Prim. Cap. Und. 2nd Ser. $94.79
MY Hldgs. 0.45p
McInerney 1p
Mier Finance Gtd. Flg. Rate Nts. 1989 $1311.50
Paterson Zoch. 5.35p
Do. A NV 5.35p
Portland 7.5cts.
Reed Int. 5% Prf. 1.75p
Do. 7% Prf. 2.45p
Sindall (Wm.) 0.8p
Tenneco 76cts.

WEDNESDAY DECEMBER 9

COMPANY MEETINGS-
Kalamazoo, Northfield, Birmingham, 11.30
Randsworth Trust, 78 Mount Street, W., 10.00
Scottish Metropolitan, Albany Hotel, Glasgow, 11.30

BOARD MEETINGS-
Finals:
Avon Rubber
Albion
Baggeridge Brick
Bogod-Pelepah
Carr's Milling
Holmes & Marchant
Lovell (Y.J.)
Smith & Nephew
Utd. Scientific
Interims:
Alexander (W.)
BTP
Bulmer (H.P.)
Charter Cons.
Coated Electrodes
Cont. Stationery
Evans of Leeds
Fine Art Dev.
Havelock Europa
Healthcare Serv.
M & G 2nd Dual Tst.
Northern Foods
Priest (B.)
Tex Hldgs.
Tomorrows Leis.
Toothill
Waterglade Intl.
Yellowhammer

DIVIDEND & INTEREST PAYMENTS-
Anheuser-Busch 15cts.
English Nat. Inv. 3.9p
Do. Dfd. 1.45p
First Interstate Gtd. Flg. Rate Sub. Nts. 1995 $165.42
Investments NV Gtd. Flg. Rate Nts. 1989 $31.6
Lloyds Bank Prim. Cap. Und. Flg. Rate Nts. $319.13
Midland Int. Fin. Serv. Gtd. Flg. Rate Nts. 1992 $200.16
Ocean Wilsons 0.5p
RBC Canadian Fd. Flg. Red. Prf. 4.9cts.
Royal Bank of Canada Flg. Rate Deb. Nts. 2085 $18.958333
Samuelson Grp. 1.8p
Treasury 10% 1994 5pc

THURSDAY DECEMBER 10

COMPANY MEETINGS-
Frogmore Estates, Barber-Surgeons' Hall, Monkwell Square, Wood Street, E.C., 10.30
North Atlantic Secs. 46 New Broad Street, E.C., 2.45
Smart (J.), 28 Crammond Road South, Edinburgh, 12.00

BOARD MEETINGS-
Finals:
Assoc. British Eng.
Bradstock
Flexello
Irish Distillers
Melville Street Invs.
Westland
Whessoe
Interims:
Booth Inds.
Brit. Bldg. & Eng. App.
Dowty
Greycoat
Phoenix Timber
Pilkington
Smith New Court
Stewart & Wight
Syltone
Thorn EMI
Tinsley (E.)

DIVIDEND & INTEREST PAYMENTS-
Allied Signal 45cts.
Banco Latino Americano Flg. Rate Nts. Wrrts. 1991 $425.73
Do. Flg. Rate Nts. 1991 $425.73
Chevron 60cts.
Dun & Bradstreet 37.5cts.
Ferguson Ind. Hldgs. 3.4p
General Motors 12cts.
Grace (W.R.) 70cts.
Grand Central Inv. 0.2p
Hewden-Stuart 0.725p
Int. Bus. Mach. 110cts.
Kalamazoo 1.5p
Kraft 47cts.
Landu Hldgs. 1.6p
Nedfibra Fin. Gtd. Flg. Rate Nts. 1988 $199.06
Scott Paper 34cts.
Securities Tst. of Scotland 1.2p
Squibb Corp. 30cts.
Sun Co. 75cts.
Toshiba Y4
Travelers Corp. 57cts.
Treasury 8% 1991 4pc
United Tech. 35cts.
Usher-Walker 2.7p
Warner-Lambert 45cts.
Wells Fargo Flg. Rate Sub. Nts. 1994 $194.32

FRIDAY DECEMBER 11

COMPANY MEETINGS-
Eleco, Institute of Directors Business Centre, Waterloo Room, 116 Pall Mall, S.W., 12.00
Highland Elect., Highland House, 8 Old Steine, Brighton, 12.30
Rosehaugh, The Drawing Room, Claridges, Brook Street, W., 10.00
Stockdale, The Suffolk Room, Great Eastern Hotel, Liverpool Street, E.C., 10.00
Wolseley, Vines Lane, Droitwich, Worcestershire, 2.30

BOARD MEETINGS-
Finals:
Assoc. Paper Inds.
Crystalate
Hardys & Hansons
Yorkshire TV
Interims:
Bristol Evening Post
Hicking Pentecost
Russell (A.)

DIVIDEND & INTEREST PAYMENTS-
Bankers N.Y. Flg. Rate Sub. Nts. 2000 $195.9
Billam (J.) 1.8p
Boeing Co. 35cts.
Britannia Security 1.08p
East Rand Gold 15.72815p
Do. S 15.72815p
Elys (Wimbledon) 1p
Free State Cons. 44.31815p
Inter-American Dev. Bk. 11% Bds. 11/12/92 5.5pc
Lees (John J.) 0.825p
London Atlantic 2.1p
Midland Bank Und. Flg. Rate Prim. Cap. Nts. Ser 3 $392.89
Monsanto 70cts.
New Central Witwatersrand 23.21878p
Next 2.5p
Orange Free State Invs. 116.37852p
PCT Grp. 1.8p
Randsworth Tst. 1p
Rockware 0.8p
Royal Bank of Scotland Und. Flg. Rate Prim. Cap. Nts. $397.14
Spring Ram 0.363p
Stockdale 9p
TNT 3.75cts.
Treasury 3% 1992 1.5pc
Tyzack (W.A.) 1.4p
WA Hldgs. 0.4p
Welkom Gold 31.18837p
Witwatersrand Gold 5cts.

SATURDAY DECEMBER 12

DIVIDEND & INTEREST PAYMENTS-
Eaton Fin. NV 12½% Uns. Ln. 2014 6.25pc
Exchequer 12% 13/17 6pc
Spirax-Sarco 1.7p

PARLIAMENT

TODAY

Commons: Health and Medi*cines Bill, second reading.* British Film Fund Agency (Dissolution) Order. Civil and Defence Votes on account. Winter Supplementary Estimates.

Lords: Appropriation (No 3) (Northern Ireland) Order 1987. Adoption (Northern Ireland) Order 1987. Debate on EC report on social security.

Committees. Public Accounts (Room 16, 4.45 pm). Subject: Metropolitan Police, ports and prisons building, employment of works consultants, repayment arrangements for US forces expenditure. Witnesses: Sir Brian *Cubborn, Home Office;* Mr D Hillary, Metropolitan Police; Sir Derek Oulton, Lord Chancellor's Department; Sir Gordon Manzie; Property Services Agency.

Treasury and Civil Service (Room 8, 4.45 pm). Subject: Autumn Statement. Witnesses: Treasury officials.

TUESDAY

Commons: Motion for the Christmas adjournment. Consolidated Fund (No 2) Bill.

Lords: Coroners Bill (Consolidation), third reading. Income and *Corporation Taxes Bill (Consolidation)* committee on recommitment (to be discharged.). Copyright, *Designs* and Patents Bill, committee.

Committees: Dartford-Thurrock Crossing Bill (Room 5, 10.30 am).

WEDNESDAY

Commons: Rate Support Grant (England) report. Debate on EC fisheries documents.

Lords: Debate on disarmament negotiations and East-West relations. Sunday Sports Bill, report.

Committees: Dartford-Thurrock Crossing Bill (Room 5, 10.30 am). Public Accounts (Room 16, 4.15 pm). Subjects: Royal Ordnance, travel and subsistence fraud, Meteorological Office. Witness: Sir Clive Whitmore, Ministry of Defence.

Treasury and Civil Service (Room 8, 4.45 pm) subject: Autumn Statement. Witness: Chancellor of the Exchequer.

Joint committee on private bill procedure (Room 6, 5 pm). Witness: Scottish Office.

THURSDAY

Commons: Arms Control and Disarmament, (Privileges and Immunities) Bill, remaining stages. Parliamentary Constituencies (England) Orders. Opposed private business.

Lords: *Consolidated Fund Bill,* all stages. Civil Evidence (Scotland) Bill, Report. Copyright, Designs and Patents Bill, committee. Motor Vehicles (Compulsory Insurance) Regulations 1987. Supplementary Benefit (Requirements) Amendment Regulations 1987.

Committee: Dartford-Thurrock Crossing Bill (Room 5, 10.30 am).

FRIDAY

Commons: Private members bills.

WORLD STOCK MARKETS

AUSTRIA

[illegible]

BELGIUM/LUXEMBOURG

[illegible]

DENMARK

[illegible]

FINLAND

[illegible]

FRANCE

[illegible]

SPAIN

[illegible]

GERMANY

[illegible]

ITALY

[illegible]

NETHERLANDS

[illegible]

NORWAY

[illegible]

SWITZERLAND

[illegible]

SWEDEN

[illegible]

AUSTRALIA

[illegible]

JAPAN

[illegible]

HONG KONG

[illegible]

SINGAPORE

[illegible]

SOUTH AFRICA

[illegible]

NOTES — Prices on this page are as quoted on the individual exchanges and are last traded prices. (u) unavailable. # Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all. * Price in Kroner

CANADA

TORONTO

Closing prices December 4

[illegible]

MONTREAL

Closing prices December 4

[illegible]

OVER-THE-COUNTER

Nasdaq national market, closing prices, December 4

Continued from Page 37

[illegible]

Indices

NEW YORK — DOW JONES

	Dec. 4	Dec. 3	Dec. 2	Dec. 1	1987 High	1987 Low	Since compilation High	Since compilation Low
♦Industrials	1766.74	1776.53	1848.97	1842.34	2722.42 (25/8)	1738.42 (19/10)	2722.42 (25/8/87)	41.22 (2/7/32)
Home Bonds	86.85	86.60	86.64	86.39	95.52 (9/2)	81.26 (19/10)	—	—
Transport	661.00	673.57	702.43	697.14	1101.16 (14/8)	674.92 (26/10)	1101.16 (14/8/87)	12.32 (8/7/32)
Utilities	173.13	173.72	177.51	176.98	227.83 (22/1)	160.98 (19/10)	227.83 (22/1/87)	10.50 (8/4/32)

♦Day's High 1794.60 (1859.08) Low 1733.92 (1772.21)

STANDARD AND POOR'S	Dec. 4	Dec. 3	Dec. 2	Dec. 1	1987 High	1987 Low	Since compilation High	Since compilation Low
Composite ‡	223.92	225.21	233.45	232.00	336.77 (25/8)	224.99 (19/10)	336.77 (25/8/87)	4.40 (1/6/32)
Industrials	255.43	256.89	266.76	265.05	393.17 (25/8)	256.89 (3/12)	393.17 (25/8/87)	3.62 (21/6/32)
Financials	20.46	20.47	21.21	21.04	32.43 (25/8)	20.47 (3/12)	32.43 (25/8/87)	8.64 (1/10/74)
NYSE Composite	125.91	127.01	131.21	130.50	187.99 (25/8)	127.01 (3/12)	187.99 (25/8/87)	4.46 (25/4/42)
Amex Mkt. value	231.90	236.55	241.82	241.68	365.01 (13/8)	234.01 (28/10)	365.01 (13/8/87)	29.31 (9/12/72)
NASDAQ OTC Comp	292.92	298.75	305.22	305.24	455.28 (26/8)	291.90 (28/10)	455.28 (26/8/87)	54.87 (31/10/72)

	Nov. 27	Nov. 20	Nov. 13	year ago (approx.)
Dow Industrial Div. Yield	3.59	3.58	3.54	3.61
	Dec. 2	Nov. 25	Nov. 18	year ago (approx.)
S & P Industrial div. yield	3.86	3.69	3.14	2.96
S & P P/E ratio	14.73	15.34	15.52	17.73

TRADING ACTIVITY

† Volume (Millions)

	Dec. 4	Dec. 3	Dec. 2
New York	185.861	204.160	249.321
Amex	11.270	11.110	10.590
OTC	136.528	129.425	109.075

NEW YORK	Dec. 4	Dec. 3	Dec. 2
Issues Traded	1,992	1,984	1,957
Rises	352	258	745
Falls	1,297	1374	756
Unchanged	343	352	456
New Highs	-	2	2
New Lows	280	172	97

CANADA

TORONTO

	Dec. 4	Dec. 3	Dec. 2	Dec. 1	1987 High	1987 Low
Metals & Minerals	2279.2	2325.6	2411.5	2391.6	3507.5 (5/10)	1988.2 (2/1)
Composite	2909.2	2948.4	3021.6	2997.7	4112.9 (13/8)	2843.9(10/11)
MONTREAL Portfolio	1443.01	1458.33	1497.95	1475.57	2224.77 (16/7)	1435.94(26/10)

NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Closing price	Change on day
Cigna	9,647,300	44¼	- ⅝
Exxon	4,889,600	35⅝	+ ⅛
General Electric	2,959,000	40	+ ⅛
I E radio	2,384,300	23	- ⅛
AT&T	2,365,100	26	
Wal-Mart Stores	2,141,400	21⅝	+ ⅝
IBM	2,135,600	107¼	+ 1¼
Exxon	1,838,600	36¼	+ ¼
American Express	1,639,600	21⅝	+ ⅜
Navistar	1,628,400	3¾	- ⅛

Base values of all indices are 100 except NYSE All Common – 50; Standard and Poor's – 10; and Toronto Composite and Metals – 1000. Toronto indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds. ‡ 400 industrials plus 40 utilities, 40 Financials and 20 transports. (c) Closed.(u) Unavailable.

	Dec. 4	Dec. 3	Dec. 2	Dec. 1	1987 High	1987 Low
AUSTRALIA						
All Ordinaries (1/1/80)	1247.2	1286.3	1307.2	1305.9	2305.9 (21/9)	1151.0 (11/11)
All Mining (1/1/80)	729.8	758.9	779.7	800.3	1462.4 (14/10)	586.9 (11/11)
AUSTRIA						
Credit Aktien (30/12/84)	177.13	180.70	179.47	179.92	232.19 (22/9)	172.01 (11/11)
BELGIUM						
Brussels SE (1/1/84)	3586.10	3663.0	3680.8	3665.8	5412.2 (13/8)	3527.5 (30/10)
DENMARK						
Copenhagen SE (3/1/83)	(u)	183.62	183.57	182.86	219.76 (27/8)	179.60 (20/11)
FINLAND						
Unitas General (1975)	573.1	571.8	572.6	575.4	679.1 (15/10)	425.2 (5/1)
FRANCE						
CAC General (31/12/82)	278.3	286.0	290.1	288.8	460.4 (26/3)	284.5 (12/11)
Ind. Tendance(31/12/86)	71.7	74.8	75.0	75.0	117.2 (26/3)	69.7 (10/11)
GERMANY						
FAZ Aktien (31/12/58)	422.37	433.34	434.85	433.91	676.84 (6/1)	400.13 (10/11)
Commerzbank (1/12/53)	1296.7	1335.20	1333.2	1325.7	2061.1 (17/8)	1220.9 (10/11)
HONG KONG						
Hang Seng Bank (31/7/64)	1994.22	2057.43	2100.83	2108.55	3949.73 (1/10)	1960.90 (5/11)
ITALY						
Banca Com. Ital. (1972)	513.53	518.90	523.87	518.59	767.34 (30/4)	476.27 (10/11)
JAPAN **						
Nikkei (16/5/49)	22602.75	22808.16	22915.49	22832.89	26646.43 (14/10)	18544.00 (13/1)
Tokyo SE New (4/1/68)	1833.86	1842.02	1857.59	1851.86	2258.56 (11/6)	1557.46 (13/1)
NETHERLANDS						
ANP-CBS General (1970)	198.3	203.0	205.1	206.2	334.1 (14/8)	192.2 (10/11)
ANP-CBS Industrial (1970)	153.7	155.9	157.9	159.7	280.8 (11/8)	147.5 (10/11)
NORWAY						
Oslo SE (4/1/83)	324.97	330.80	332.71	331.42	592.04 (21/9)	307.48 (10/11)
SINGAPORE						
Straits Times Ind. (30/12/66)	734.90	746.70	782.4	779.2	1505.4 (26/8)	779.2 (1/12)
SOUTH AFRICA						
JSE Gold (28/9/78)	(u)	1828.0	1854.0	1856.0	2499.0 (3/8)	1448.0 (5/11)
JSE Industrial (28/9/78)	(u)	1477.0	1476.0	1474.0	2266.0 (16/10)	1402.0(23/11)
SPAIN						
Madrid SE (30/12/85)	201.08	203.46	207.50	211.54	325.44 (6/10)	201.08 (4/12)
SWEDEN						
Jacobson & P. (31/12/56)	(u)	2120.40	2092.90	2118.37	3550.40 (9/10)	2068.60 (10/11)
SWITZERLAND						
Swiss Bank Ind. (31/12/58)	460.0	473.0	(u)	484.7	729.7 (5/10)	450.9 (10/11)
WORLD						
M.S. Capital Intl. (1/1/70)	(u)	385.3	392.3	390.9	495.9 (27/8)	361.3 (2/1)

** Saturday December 5 Japan Nikkei 22,673.41. TSE 1,837.51

Base values of all indices are 100 except Brussels SE – 1,000 JSE Gold – 255.7 JSE Industrials – 264.3 and Australia. All Ordinary and Metals – 500; (c) Closed.(u) Unavailable

Closing prices, December 4

NEW YORK STOCK EXCHANGE COMPOSITE CLOSING PRICES

12 Month High	12 Month Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev Close
25 5/8	14 1/2	AAR s	.36	2.5	13	1406	14 3/4	d14	14 1/4	- 1/4
32 1/2	18 3/4	AFG s	.16	.7	8	247	23	22 1/2	22 1/2	- 3/4
27	10 1/2	AGS s			10	1015	11 3/8	11	11 3/8	- 5/8
10 1/2	6 3/8	AMCA			10	6 3/8	d	6 1/4	6 3/8	
9 3/8	3 1/4	AM Intl			41	1213	4 5/8	4 3/8	4 1/2	- 1/8
65 1/2	26 1/4	AMR			6	6015	28 1/4	d26 3/4	28 1/4	- 3/8
12 1/4	6 3/8	ARX s			7	434	7	6 3/4	7	+ 1/8
73 1/2	35 1/8	ASA	2a	4.1		1430	50 1/8	47 1/8	48 1/4	- 2 7/8
22 5/8	9 1/2	AVX			15	475	11 1/2	11	11 1/2	+ 1/8
67	40	AbtLab	1	2.3	16	4183	43 3/4	42 1/4	43	- 1/8
28	15 3/8	Abitibi g				60	18 5/8	17 3/4	17 7/8	- 1/2
18 3/4	8 1/2	AcmeC	.40	4.2	14	452	9 5/8	9 3/8	9 5/8	
10 1/2	6 1/8	AcmeE	.32b	4.5	25	65	7 1/8	7	7 1/8	- 1/8
20	14 1/8	AdaEx	3.34e	22.		266	15 5/8	15 1/8	15 1/4	- 1/2
19 1/2	7 3/8	AdmM s	.24	3.5	5	260	7 5/8	d	6 7/8	6 7/8
35	15 1/8	AdvSys			12	288	26 3/4	25 1/2	25 1/2	- 1 1/8
24 7/8	8	AMD				4578	8 1/8	d	7 1/2	8 1/8	+ 1/8
56 3/4	29 1/4	AMD pf	3	10.		47	29 1/2	29 3/8	29 1/2	
11 7/8	4 5/8	Adobe				630	5 1/4	5	5	- 1/4
20 1/2	15 1/2	Adob pf	1.84	11		14	16 5/8	16 1/2	16 1/2	- 3/8
21 7/8	17	Adob pf	2.40	12.		2	20 1/8	20 1/8	20 1/8	+ 1/8
15	6 7/8	Advest	.12a	1.6	6	636	7 5/8	7 3/8	7 3/8	- 1/8
66 1/4	44 1/8	AetnLf	2.76	6.2	6	4180	45	d43 7/8	44 3/4	+ 3/8
63 1/2	33 1/4	AfilPb s	.40	1.0	6	1112	41 3/4	41	41	
26 7/8	13 3/8	Ahmans	.88	6.2	6	4763	14 1/2	14	14 1/4	+ 1/8

Continued on Page 37

NYSE COMPOSITE CLOSING PRICES

Continued from Page 36

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
6⅞	2¾	ParkDrl01j		.4	14243	d	2⅝	2¾		
46	24½	ParkHn .80	2.5	10	1836	31¾	29⅞	31¾	+⅜	
5⅛	2⅞	PatPtr		70	126	3½	3¼	3½	+⅛	
18⅝	3⅜	Patten .04	1.1	5	879	3⅞	d	3⅝	3⅝	
21½	10⅞	PayNP .30j		19	285	14⅞	14½	14¾		
26⅝	9⅞	PayCsh .16	1.6	6	859	9⅝	d	9⅝	9¾	
60½	37	PenCen .05	.1	14	2184	43⅝	42¼	42¾	−⅞	
66	35¼	Penney 1.48	3.7	10	3089	40⅝	38⅝	39⅝	−1½	
41⅝	28⅝	PaPL 2.56	8.4	10	x818	32¼	31⅝	31⅞		
58	44	PaPL pf4.40	9.9		y1160	44⅞	44½	44½	−⅜	
54	44	PaPL pf4.50	9.9		y180	45½	45½	45½	−⅞	
101	78	PaPL pr8.40	10.		y110	83¾	83	83	+⅞	
98¼	74	PaPL pr 8	9.9		y150	80½	79	80½	+1	
105	80	PaPL pr8.70	10.		y20	85½	85½	85½	−¼	
68¼	34¾	Pennwt 2.40	6.0	11	172	40	39½	39⅞	−⅛	
39½	20½	Pennw pr1.60	6.9		22	23½	23	23¼	−⅛	
95	38½	Pennzo2.20	3.0	57	1910	76⅝	73½	74½	−1	
26¾	14¼	PeopEn.44	2.4	9	577	15½	15	15⅜	+¼	
18⅞	9½	PepBys .08	.7	19	1418	11⅝	11⅛	11¼	−¾	
42¼	25½	PepsiCo66	2.2	14	6788	31⅜	30⅛	30⅞	+⅛	
12¾	7⅛	PerkF 1.15e	12.	19	40	9⅝	9¼	9¼		
41⅛	16½	PerkEl .68	3.0		1109	20½	19½	20	−½	
9⅛	5⅜	Prmian.53e	10.	9	632	5½	d	5¼	5¼	
10⅛	8¼	PrLP pr1.15	13.		430	8¾	8⅝	8¾		
15⅝	6½	PeryDr .22	4.0		228	5¾	5½	5½		
40	16⅝	Petrie .70	4.4	11	958	16⅞	d15¾	15¾	−1⅛	
21¼	15½	PtPar n 2	12.	11	275	16⅞	16¼	16⅝	−⅜	
33½	22⅞	PetRs 3.96e	18.		56	23	d22⅝	22⅝	−½	
19¾	15	PetRs pf1.57	10.		10	15⅜	15⅜	15⅜		

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
31½	19¾	XTRA .64	3.1	14	77	20⅞	20⅝	20⅞		
28¼	19½	XTRA pf1.94	9.5		11	21	20½	20½	−½	
33⅞	16⅛	Yorkin		8	229	21	19⅝	19¾	−1½	
7¼	2⅜	Zapata			767	3	2¾	2⅞	−⅛	
37	14	Zayre .40	2.8	5	4413	14⅜	d13½	14⅛		
18⅛	9¼	Zemex .40	4.2	9	31	10	9⅝	9⅝	−⅜	
33⅝	10	ZenithE			1036	13⅜	13	13⅜		
13½	3	ZeoLab			1167	3¼	3	3		
25½	13½	ZeoNt .80	5.1	8	130	16¼	15⅝	15⅝	−⅝	
20⅝	11⅜	Zero .36	3.0	12	341	12	11¾	11⅞	−¼	
30¾	15	Zurnin s .68	4.3	10	494	16½	15⅝	16	−⅞	
10⅝	7⅝	Zweig .92e	11.		641	8¼	8⅛	8¼	−⅛	

Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks *plus the current week, but not the latest* trading day. Where a split or stock dividend amounting to 25 per cent or more has been paid, the year's high-low range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividends are annual disbursements based on the latest declaration.

a-dividend also extra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E-price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begin with date of split. sls – sales. t-dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-dividend or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in full. yld-yield. z-sales in full.

AMEX COMPOSITE CLOSING PRICES

Closing prices December 4

OVER-THE-COUNTER

Nasdaq national market, closing prices, December 4

Continued on Page 35

CURRENCIES, MONEY & CAPITAL MARKETS

FOREIGN EXCHANGES

Group of Seven meeting unlikely before new year

BY COLIN MILLHAM

A MEETING of the Group of Seven major industrial nations is unlikely before the new year, according to economists at several of the main financial institutions in London.

The likeliest time for a meeting appears to be some time in January, but even then there is doubt that anything very constructive will be achieved.

The view from London is that Europe has done all it can to support the dollar, and that the US has failed to respond in a strong enough way.

Mr William Ledward, European economist at Merryll Lynch's London office, feels that by cutting interest rates last week Europe has pushed the ball back into the US court. The US must raise interest rates to stabilize the dollar, but is not prepared to do so for political reasons.

According to Merryll Lynch, figures show that during a presidential election campaign the incumbent party does badly if real disposable income is flat or falling.

A new president will be elected next year and there is a general agreement that the US Treasury and Federal Reserve will not wish to make matters difficult for the Republican candidate by pushing up interest rates and encouraging the economy into recession.

A US recession is feared for the early part of next year, but Mr Stephen Hannah, chief UK economist at County NatWest, does not believe this will be severe. He also forecasts a slowdown in UK growth, but does not think the world is heading for a major depression.

He suggests the US will learn that devaluation does not cure economic woes, but merely raises inflationary pressure. Mr Hannah expects sterling to rise above $2 next year, but not for long, because this will be followed by a pick up in US growth in the spring.

Ms Evelyn Brodie, senior UK economist at Morgan Grenfell, agrees US officials do not wish to see a slow down in the economy during the run up to the election. She believes there are no grounds for agreement between the US and other major industrial nations on economic policy, and no political will in Washington to put its house in order.

The dollar will continue to fall, according to Mr Gavin Davies, chief economist in London of Goldman Sachs. The markets are becoming increasingly nervous as central banks pump in liquidity and cut interest rates, leading to fears about rising inflation. He sees an early G7 meeting as unlikely and believes the US will not tighten monetary policy for fear of a recession.

The present situation is a vote of no confidence in the dollar, says Mr Neil MacKinnon, economist at Nomura Research Institute in London. He forecasts the dollar will test Y130 this week and Y125 early next year.

The most optimistic voice on the dollar was that of Mr Geoffrey Dennis, international economist at James Capel. He emphasised the importance of central bank intervention, and said he believe the US Federal Reserve had joined the West German Bundesbank and Bank of England on Friday in buying dollars and attempting to create a stable trading range for the US currency.

Like many other economists he believes a G7 meeting will not be held until the new year and that the US will then agree to an agreement similar to the Louvre Accord. Mr Dennis agrees this will not involve action on interest rates, but merely a commitment attempting to prevent a further dollar slide.

£ IN NEW YORK

Dec 4	Close	Previous Close
£ Spot	1.7915-1.7925	1.8030-1.8040
1 month	0.11-0.09pm	0.12-0.10pm
3 months	0.37-0.34pm	0.42-0.36pm
12 months	1.23-1.15pm	1.25-1.15pm

Forward premiums and discounts apply to the US dollar

STERLING INDEX

	Dec 4	Previous
8.30 am	75.9	76.1
9.00 am	76.0	76.1
10.00 am	76.0	76.1
11.00 am	76.0	76.2
Noon	76.0	76.2
1.00 pm	76.0	76.1
2.00 pm	76.0	75.9
3.00 pm	75.8	75.9
4.00 pm	75.8	75.9

CURRENCY RATES

Dec 4	Bank rate %	Special Drawing Rights	European Currency Unit
Sterling	-	0.754032	0.688234
U.S Dollar	6½	1.36706	1.24674
Canadian $	8.75¼	-------	1.63323
Austrian Sch.	3	15.9208	14.5257
Belgian Franc	7	47.3139	43.1558
Danish Krone	7½	8.73141	7.96478
Deutsche Mark	2½	2.26057	2.06335
Neth.Guilder	3¾	2.54410	2.32130
French Franc	9½	7.68971	7.01539
Italian Lira	12½	1668.45	1522.58
Japanese Yen	2½	181.887	164.632
Norway Krone	8	8.78063	8.00717
Spanish Peseta	-	153.247	139.635
Swedish Krona	7½	8.20373	7.47793
Swiss Franc	2½	1.84690	1.68559
Greek Drach.	20½	178.634	162.899
Irish Punt	-	0.850242	0.775430

*C$/SDR rate for Dec 3 1.79686

CURRENCY MOVEMENTS

Aug. 20	Bank of England Index	Morgan Guaranty Changes %
Sterling	75.8	-18.0
U.S Dollar	95.5	-10.9
Canadian Dollar	77.1	-10.4
Austrian Schilling	142.4	+10.8
Belgian Franc	101.4	-4.3
Danish Krone	93.9	+2.6
Deutsche Mark	151.0	+23.5
Swiss Franc	181.0	+26.1
Guilder	139.0	+15.8
French Franc	72.4	-13.3
Lira	47.4	-18.8
Yen	231.9	+73.6

Morgan Guaranty changes: average 1980-1982=100. Bank of England Index (Base Average 1975=100).

OTHER CURRENCIES

Dec 4	£	$
Argentina	7.6140-7.7105	4.2300-4.2800
Australia	2.5870-2.5900	1.4305-1.4325
Brazil	115.305-115.985	64.025-64.340
Finland	7.3590-7.3765	4.0760-4.0780
Greece	234.10-238.20	129.40-131.65
Hong Kong	14.0315-14.0485	7.7650-7.7670
Iran	122.50*	57.00*
Korea(Sth)	1428.40-1441.35	792.40-798.80
Kuwait	0.49600-0.49650	0.27575-0.27585
Luxembourg	62.60-62.70	34.80-34.90
Malaysia	4.5065-4.5180	2.4960-2.4980
Mexico	4052.25-4144.60	2250.00-2300.00
N. Zealand	2.8270-2.8320	1.5625-1.5665
Saudi Ar.	6.7450-6.7510	3.7495-3.7505
Singapore	3.6510-3.6765	2.0300-2.0320
S. Af (Cm)	3.5640-3.5800	1.9725-1.9765
S. Af (Fn)	5.3910-5.5570	2.9850-3.0770
Taiwan	52.55-52.85	29.30-29.40
U.A.E.	6.6065-6.6125	3.6725-3.6735

*Selling rate

FORWARD RATES AGAINST STERLING

	Spot	1 mth	2 mths	6 mths	12 mths
US Dollar	1.7975	1.7965	1.7951	1.7905	1.7853
D-mark	2.9975	2.9848	2.9721	2.9267	2.8613
French Fr.	10.170	10.170	10.170	10.170	10.170
Swiss Fr.	2.4525	2.4424	2.4326	2.3955	2.3394
Yen	238.75	238.67	238.58	238.26	237.78

EMS EUROPEAN CURRENCY UNIT RATES

	Ecu central rates	Currency amounts against Ecu Dec.4	% change from central rate	% change adjusted for divergence	Divergence limit %
Belgian Franc	42.4582	43.1558	+1.64	+0.83	±1.5344
Danish Krone	7.85212	7.96478	+1.43	+0.62	±1.5404
German D-Mark	2.05853	2.06335	+0.23	-0.58	±1.0981
French Franc	6.90403	7.01539	+1.61	+0.80	±1.3674
Dutch Guilder	2.31943	2.32130	+0.08	-0.73	±1.5012
Irish Punt	0.768411	0.775430	+0.91	+0.10	±1.6684
Italian Lira	1483.58	1522.58	+2.63	+2.32	±4.0752

Changes are for Ecu, therefore positive change denotes a weak currency. Adjustment calculated by Financial Times.

POUND SPOT- FORWARD AGAINST THE POUND

Dec 4	Day's spread	Close	One month	% p.a.	Three months	% p.a.
US	1.7930-1.8145	1.7970-1.7980	0.11-0.08cpm	0.63	0.38-0.33pm	0.79
Canada	2.3547-2.3659	2.3565-2.3575	0.02dis-0.08pm	0.25	0.16-0.29dis	-0.38
Netherlands	2.36¾-2.37¾	3.36¾-3.37¾	1⅛-1cpm	4.01	3½-3pm	3.87
Belgium	62.36-62.85	62.60-62.70	11-8cpm	1.82	32-27pm	1.88
Denmark	11.53½-11.59½	11.56¾-11.57¾	1⅛-1½oredis	-1.23	3½-5⅛dis	-1.51
Ireland	1.1250-1.1290	1.1270-1.1280	0.07pm-Par	0.37	0.05pm-0.10dis	-0.27
W. Germany	2.99¼-3.00¼	2.99¾-3.00¾	1⅛-1⅛pfpm	5.25	3¾-3½pm	4.92
Portugal	241.63-243.11	241.63-245.93	90-142cdis	-5.71	285-390dis	-5.54
Spain	202.76-203.66	203.18-203.66	75-95cdis	-5.01	207-387dis	-5.84
Italy	2207½-2215	2207½-2208½	3-5liredis	-2.17	11-7pm	-1.63
Norway	11.56¾-11.64¾	11.56¾-11.57¾	5¼-6¾oredis	-6.49	17½-19dis	-6.31
France	10.14-10.20½	10.16½-10.17½	¼pm-½dis	-0.44	½pm-¾dis	-0.20
Sweden	10.83-10.87¾	10.83-10.84	par-1oredis	-0.55	1-2¼dis	-0.60
Japan	238¼-239¼	238¼-239¼	1-¾ypm	4.40	2¾-3¼pm	5.03
Austria	20.91-21.12	20.92-20.94	7¼-5¼gropm	3.87	19-15¼pm	3.27
Switzerland	2.44¾-2.45¾	2.44¾-2.45¾	1⅛-⅞cpm	4.91	3⅛-2⅞pm	4.91

Belgian rate is convertible francs. Financial franc 62.95-63.05. Six-month forward dollar 0.72-0.67 c pm. 12-month 1.27-1.17 c pm.

DOLLAR SPOT- FORWARD AGAINST THE DOLLAR

Dec 4	Day's spread	Close	One month	% p.a.	Three months	% p.a.
UK†	1.7930-1.8145	1.7970-1.7980	0.11-0.08cpm	0.63	0.38-0.33pm	0.79
Ireland†	1.5945-1.6080	1.5950-1.5960	0.09-0.04cpm	0.49	0.40-0.30pm	0.87
Canada	1.3082-1.3120	1.3110-1.3120	0.07-0.10cdis	-0.78	0.37-0.40dis	-1.18
Netherlands	1.8590-1.8785	1.8755-1.8765	0.55-0.52cpm	3.44	1.44-1.39pm	3.04
Belgium	34.55-34.90	34.80-34.90	5.00-3.00cpm	1.39	11.00-7.00pm	1.04
Denmark	6.37¾-6.44	6.43½-6.44	0.90-1.60oredis	-2.35	3.40-4.10dis	-2.35
W. Germany	1.6520-1.6700	1.6685-1.6695	0.63-0.60pfpm	4.45	1.71-1.66pm	4.07
Portugal	135.70-136.00	135.75-136.05	50-100cdis	-6.65	175-325dis	-7.39
Spain	111.65-113.30	113.10-113.20	40-60cdis	-5.35	130-160dis	-5.17
Italy	1219-1229½	1228¼-1228¾	2.50-3.50liredis	-2.95	9.00-12.00dis	-3.44
Norway	6.39¾-6.45½	6.43½-6.44	3.60-3.95oredis	-7.05	11.35-11.75dis	-7.17
France	5.61¾-5.66	5.65½-5.66	0.30-0.40cdis	-0.74	1.20-1.50dis	-0.96
Sweden	5.99¾-6.03¾	6.02½-6.03	0.45-0.75oredis	-1.20	1.95-2.35dis	-1.43
Japan	131.85-132.90	132.75-132.85	0.41-0.38ypm	3.59	1.14-1.10pm	3.39
Austria	11.63-11.71	11.70½-11.71	4.25-3.25gropm	3.86	10.50-8.90pm	3.26
Switzerland	1.3500-1.3650	1.3635-1.3645	0.50-0.48cpm	4.34	1.35-1.31pm	3.93

† UK and Ireland are quoted in US currency. Forward premiums and discounts apply to the US dollar and not to the individual currency. Belgian rate is for convertible francs. Financial franc 35.00-35.10.

EURO-CURRENCY INTEREST RATES

Dec 4	Short term	7 Days notice	One Month	Three Months	Six Months	One Year
Sterling	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
US Dollar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Can. Dollar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
D. Guilder	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sw. Franc	1⅛-1⅛	1½-1⅛	3⅝-3⅜	3⅝-3⅜	3⅝-3⅜	3⅝-3⅜
Deutschmark	3-2⅞	3⅛-2⅞	3⅝-3⅜	3⅝-3½	3⅝-3½	3⅝-3½
Fr. Franc	8-7⅞	8⅛-8	8⅝-8⅜	8⅝-8⅜	8⅞-8⅝	9-8⅞
Italian Lire	11½-9⅛	10⅛-9⅞	10⅜-10⅛	11⅛-10⅞	11½-11⅛	12-11½
B. Fr. (Fin)	6⅞-6⅝	6⅞-6⅜	6⅞-6⅝	6⅞-6⅜	6⅝-6⅜	7-6⅞
B. Fr. (Con.)	7⅛-6⅞	7-6⅞	6⅞-6½	7⅛-6⅞	7⅛-6⅞	7⅛-6⅞
Yen	4⅜-4⅛	4⅜-4⅛	4⅜-4⅛	4⅜-4⅛	4⅞-4⅜	4⅞-4⅜
D. Krone	9⅞-9⅜	9⅞-9½	10⅛-10⅛	10⅛-9⅞	10⅛-9⅞	10½-10
Asian $Sing	7-6⅞	7-6⅞	8⅛-8	7⅞-7⅞	7⅞-7⅞	8⅛-8

Long term Eurodollars: two years 8⅝-8⅜ per cent; three years 9⅛-8⅞ per cent; four years 9⅜-9⅛ per cent; five years N/A per cent nominal. Short term rates are call for US Dollars and Japanese Yen; others, two days' notice.

EXCHANGE CROSS RATES

Dec 4	£	$	DM	Yen	F Fr.	S Fr.	H Fl.	Lira	C $	B Fr.
£	1	1.798	2.998	238.8	10.17	2.453	3.373	2208	2.357	62.65
$	0.556	1	1.668	132.8	5.658	1.364	1.876	1228	1.311	34.85
DM	0.334	0.600	1	79.65	3.393	0.818	1.125	736.6	0.786	20.90
YEN	4.188	7.529	12.55	1000	42.60	10.27	14.13	9248	9.872	262.4
F Fr.	0.983	1.767	2.947	234.8	10	2.412	3.316	2171	2.318	61.60
S Fr.	0.408	0.733	1.222	97.35	4.147	1	1.375	900.3	0.961	25.55
H Fl.	0.297	0.533	0.889	70.79	3.016	0.727	1	654.7	0.699	18.58
Lira	0.453	0.814	1.358	108.1	4.607	1.111	1.527	1000	1.067	28.37
C $	0.424	0.763	1.272	101.3	4.313	1.041	1.431	936.6	1	26.58
B Fr.	1.596	2.869	4.785	381.1	16.23	3.915	5.383	3524	3.762	100

Yen per 1,000: French Fr. per 10: Lira per 1,000: Belgian Fr. per 100.

LIFFE LONG GILT FUTURES OPTIONS

Strike Price	Calls-Last Mar	Calls-Last Jun	Puts-Last Mar	Puts-Last Jun
116	4.18	5.03	1.08	2.11
118	3.00	3.58	1.54	3.02
120	1.60	2.61	2.50	4.05
122	1.16	2.11	4.06	5.19
124	0.49	1.35	5.39	6.43
126	0.28	1.05	7.18	8.13
128	0.16	0.47	9.06	9.55
130	0.08	0.31	10.62	11.39

Estimated volume total, Calls 3813 Puts 3417
Previous day's open int: Calls 22235 Puts 11415

LIFFE US TREASURY BOND FUTURES OPTIONS

Strike Price	Calls-Last Mar	Calls-Last Jun	Puts-Last Mar	Puts-Last Jun
82	5.62	5.55	0.52	1.33
84	4.22	4.37	1.12	2.15
86	2.59	3.32	1.49	3.10
88	1.54	2.38	2.44	4.16
90	1.09	1.56	3.63	5.34
92	0.42	1.21	5.32	6.63
94	0.26	0.58	7.16	8.36
96	0.14	—	9.04	—

Estimated volume total, Calls 25 Puts 0
Previous day's open int: Calls 742 Puts 686

LIFFE FT-SE 100 INDEX FUTURES OPTIONS

Strike Price	Calls-Last Dec	Calls-Last Jan	Puts-Last Dec	Puts-Last Jan
15000	10.04	14.65	1.64	3.35
15250	8.25	-	2.35	-
15500	6.66	11.40	3.26	5.10
15750	5.27	-	4.37	-
16000	4.08	8.64	5.68	7.34
16250	3.10	-	7.20	-
16500	2.30	6.38	8.90	10.08
16750	1.68	-	10.78	-

Estimated volume total, Calls 0 Puts 0
Previous day's open int: Calls 47 Puts 136

LIFFE £/$ OPTIONS

£25,000 (cents per £1)

[illegible]

LONDON SE £/$ OPTIONS

£12,500 (cents per £1)

[illegible]

PHILADELPHIA SE £/$ OPTIONS

£12,500 (cents per £1)

[illegible]

LONDON

20-YEAR 12% NOTIONAL GILT

[illegible]

4% NOTIONAL LONG TERM JAPANESE GOVT. BOND

[illegible]

THREE-MONTH STERLING

[illegible]

FT-SE 100 INDEX

[illegible]

THREE-MONTH EURODOLLAR

[illegible]

U.S. TREASURY BONDS 8%
$100,000 32nds of 100%

	Close	High	Low	Prev.
Dec	88-04	88-12	87-23	87-27
Mar	87-05	87-14	86-19	86-26
Jun	86-11	-	-	86-00

Estimated Volume 9353 (4426)
Previous day's open int. 5946 (6242)

CURRENCY FUTURES

POUND-$ (FOREIGN EXCHANGE)

Spot	1-mth.	3-mth.	6-mth.	12-mth.
1.7975	1.7965	1.7939	1.7905	1.7853

IMM-STERLING $s per £

	Close	High	Low	Prev.
Dec	1.7920	1.8130	1.7830	1.8010
Mar	1.7890	1.8105	1.7770	1.7980
Jun	1.7860	1.8100	1.7760	1.7950

LIFFE-STERLING £25,000 $ per £

	Close	High	Low	Prev.
Dec	1.7973	-	-	1.8032
Mar	1.7940	-	-	1.7995
Jun	1.7906	-	-	1.7965

Estimated volume 0 (0)
Previous day's open int. 167 (167)

CHICAGO

U.S. TREASURY BONDS (CBT) 8%; JAPANESE YEN (IMM); DEUTSCHE MARK (IMM); U.S. TREASURY BILLS (IMM); THREE-MONTH EURODOLLAR (IMM)

[illegible]

SWISS FRANC (IMM)
SFr 125,000 $ per SFr

	Close	High	Low	Prev.
Dec	0.7347	0.7410	0.7310	0.7364
Mar	0.7419	0.7485	0.7381	0.7437
Jun	0.7496	0.7560	0.7465	0.7512
Sep	0.7574	0.7540	0.7535	0.7592
Dec	0.7674	0.7645	0.7645	0.7682

STANDARD & POORS 500 INDEX
$500 times index

	Close	High	Low	Prev.
Dec	225.55	226.00	220.80	223.60
Mar	226.30	226.60	221.65	224.35
Jun	227.20	227.50	222.50	225.35
Sep	228.70	229.50	224.50	226.90

EUROPEAN OPTIONS EXCHANGE

[illegible]

TOTAL VOLUME IN CONTRACTS: 32,507

A=Ask B=Bid C=Call P=Put

BASE LENDING RATES

[illegible]

● Members of the Accepting Houses Committee. * 7 day deposits 4%. Sureties 6.66%. Top Tier—£2,500+ at 3 months' notice 8.31%. At call when £10,000+ remains deposited. ♦ Mortgage base rate. § Demand deposit 3.99%. Mortgage 10%-10.25%.

FT – ACTUARIES WORLD INDICES

Jointly compiled by the Financial Times, Goldman, Sachs & Co., and Wood Mackenzie & Co. Ltd., in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of stocks per grouping	FRIDAY DECEMBER 4 1987 US Dollar Index	Day's Change %	Pound Sterling Index	Local Currency Index	Gross Div. Yield	THURSDAY DECEMBER 3 1987 US Dollar Index	Pound Sterling Index	Local Currency Index	DOLLAR INDEX 1987 High	1987 Low	Year ago (approx)
Australia (89)	94.02	−2.8	77.55	89.52	4.62	96.78	79.43	91.79	180.81	85.80	95.62
Austria (16)	90.71	−1.6	74.82	78.42	2.68	92.21	75.68	79.58	102.87	85.53	96.40
Belgium (48)	95.08	−2.8	78.43	82.19	5.78	97.86	80.31	84.35	134.89	95.08	97.30
Canada (127)	100.07	−1.2	82.54	95.03	3.26	101.27	83.11	96.21	141.78	98.15	100.57
Denmark (38)	110.24	−1.2	90.92	96.52	3.08	111.54	91.54	97.17	124.83	98.18	100.01
France (121)	80.29	−3.7	66.23	71.26	3.77	83.34	68.39	73.73	121.82	77.39	101.58
West Germany (93)	73.00	−3.0	60.21	63.34	3.02	75.23	61.74	64.90	104.93	68.91	97.97
Hong Kong (46)	77.41	−3.2	63.85	77.19	6.36	79.96	65.62	79.71	158.68	75.82	93.65
Ireland (14)	93.50	−5.0	77.12	82.57	5.51	98.44	80.79	86.67	160.22	93.50	94.89
Italy (94)	78.12	−1.3	64.43	71.67	2.68	79.16	64.97	72.36	112.11	72.04	93.46
Japan (457)	137.65	−0.8	113.54	115.55	0.60	138.70	113.83	116.43	161.28	100.00	97.09
Malaysia (36)	97.34	−1.1	80.29	93.61	3.90	98.44	80.79	94.70	193.64	97.34	99.27
Mexico (14)	117.49	+2.0	96.91	292.24	1.02	115.14	94.50	286.40	422.59	99.72	97.90
Netherland (37)	89.39	−3.1	73.73	76.54	5.90	92.23	75.70	78.64	131.41	87.70	98.71
New Zealand (20)	75.28	−3.0	62.09	62.54	5.44	77.60	63.69	63.74	138.99	75.28	93.47
Norway (24)	97.40	−2.8	80.34	85.10	3.22	100.17	82.21	87.39	185.01	96.03	99.50
Singapore (27)	85.29	−2.3	70.35	79.83	3.00	87.31	71.66	81.64	174.28	85.29	100.54
South Africa (61)	140.65	−3.0	116.01	93.18	4.60	145.03	119.02	96.08	198.09	100.00	103.81
Spain (43)	114.52	−1.4	94.46	98.17	4.23	116.19	95.35	98.76	168.81	100.00	92.92
Sweden (34)	91.85	−1.1	75.76	81.96	2.80	92.86	76.21	82.65	136.64	88.50	97.39
Switzerland (53)	75.65	−4.1	62.40	63.97	2.60	78.92	64.77	66.46	111.11	73.65	97.43
United Kingdom (332)	116.06	−0.9	95.73	95.73	4.87	117.17	96.16	96.16	162.87	99.65	93.40
USA (582)	91.21	−0.9	75.23	91.21	4.04	92.00	75.51	92.00	137.42	91.21	104.16
Europe (947)	94.60	−1.9	78.03	80.59	4.20	96.45	79.16	81.78	130.02	92.25	95.94
Pacific Basin (675)	133.71	−0.9	110.28	113.19	0.82	134.87	110.69	114.16	158.77	100.00	96.94
Euro-Pacific (1622)	118.09	−1.2	97.40	100.18	1.91	119.53	98.10	101.24	143.65	100.00	96.54
North America (709)	91.68	−0.9	75.62	91.44	3.99	92.49	75.91	92.26	137.55	91.68	103.97
Europe Ex. UK (615)	81.29	−2.8	67.05	71.16	3.61	83.60	68.61	72.85	111.97	78.89	97.52
Pacific Ex. Japan (218)	85.95	−2.9	70.89	82.17	5.12	88.50	72.64	84.36	164.03	83.17	95.07
World Ex. US (1824)	117.70	−1.2	97.08	100.09	1.98	119.16	97.80	101.18	143.38	100.00	96.76
World Ex. UK (2074)	106.62	−1.1	87.94	97.24	2.42	107.83	88.50	98.28	138.82	100.00	100.25
World Ex. So. Af. (2345)	107.23	−1.1	88.44	97.05	2.64	108.41	88.97	98.02	139.47	100.00	99.61
World Ex. Japan (1949)	92.98	−1.4	76.69	87.55	4.11	94.26	77.36	88.60	134.22	92.98	100.86
The World Index (2406)	107.44	−1.1	88.62	97.06	2.66	108.65	89.17	98.05	139.73	100.00	99.64

Base values: Dec 31, 1986 = 100

Constituent Changes: Insert: Comp. Financiere de Suez (France).Name Changes: Japan Catalytic Chem. to Nippon Shokubai Kagaku

MONEY MARKETS

No rate cuts seen from US or Japan

UK clearing bank base lending rate 8½ per cent from December 4

LAST WEEK'S cut in European interest rates is unlikely to be followed by similar moves from the US or Japan. A reduction in the US discount rate has been rumoured, according to Mr Geoffrey Dennis of James Capel, but cannot be taken seriously, because of the impact on the dollar.

A fast growing economy and fears of the impact on inflation from lower interest rates are expected to make the Bank of Japan hold out against a cut.

On the other hand many market observers question whether the lowering of UK bank base rates will be enough to hold sterling down, and expect another reduction in the near future.

Mr William Ledward of Merryll Lynch, pointed out that the West German Bundesbank is likely to hold a securities repurchase agreement tender this week, and this may be more significant than last week's largely symbolic cut in the discount rate.

The last tender was held at a rate of 3.25 p.c., but Mr Ledward suggested the Bundesbank may let the market set its own rate above a minimum bid level of 3 p.c. The other main event of the week will be publication of the US trade figures. A deficit of $14.7bn is the market median forecast for October, compared with $14.08bn in September.

Merryll Lynch expects $14bn; James Capel, and Phillips and Drew $15bn; Nomura $15.1bn; and Goldman Sachs, and Morgan Grenfell $16bn.

FT LONDON INTERBANK FIXING

(11.00 a.m. Dec.4) 3 months US dollars		6 months US Dollars	
bid 7⅞	offer 7⅞	bid 7⅞	offer 7⅞

The fixing rates are the arithmetic means rounded to the nearest one-sixteenth, of the bid and offered rates for $10m quoted by the market to five reference banks at 11.00 a.m. each working day. The banks are National Westminster Bank, Bank of Tokyo, Deutsche Bank, Banque Nationale de Paris and Morgan Guaranty Trust.

BANK OF ENGLAND TREASURY BILL TENDER

[illegible]

WEEKLY CHANGE IN WORLD INTEREST RATES

[illegible]

MONEY RATES

NEW YORK (4pm)

Prime rate	8.75
Broker loan rate	8-8¼
Fed.funds	6⅝-¾
Fed.funds at intervention.	6⅞

Treasury Bills and Bonds

One month	3.94	Three year	8.01
Two month	4.80	Four year	8.26
Three month	5.57	Five year	8.40
Six month	6.45	Seven year	8.76
One year	6.99	10-year	8.97
Two year	7.75	30-year	9.13

December 5	Overnight	One Month	Two Months	Three Months	Six Months	Lombard Intervention
Frankfurt	3.00-3.15	3.45-3.60	3.40-3.60	3.40-3.60	3.45-3.65	4.50
Paris	9.0000	8.2500	8.3750	8.4375	8.6875	7.75
Zurich	1.00	3.6250	—	3.6250	—	—
Amsterdam	4.50	4.50	—	4.6250	—	—
Tokyo	3.65625	4.03125	—	3.90625	—	—
Milan	10.00	11.875	—	11.625	—	—
Brussels	6.00	6.6875	—	6.8125	—	—
Dublin	8.00	8.6250	8.75	8.8750	8.25	—

LONDON MONEY RATES

Dec.4	Overnight	7 days notice	One Month	Three Months	Six Months	One Year
Interbank Offer	8.625	8.625	8.625	8.5625	8.625	8.875
Interbank Bid	6.50	8.375	8.4375	8.4375	8.50	8.75
Sterling CDs	-	-	8.50	8.50	8.5625	8.625
Local Authority Deps.	8.50	8.50	8.50	8.5625	8.5625	8.75
Local Authority Bonds	-	-	8.75	8.8125	8.8125	8.9375
Discount Mkt Deps.	8.50	8.375	8.375	8.125	8.00	-
Company Deposits	8.625	8.625	8.625	8.6875	8.75	8.875
Finance House Deposits	-	-	8.5625	8.5625	8.625	8.9375
Treasury Bills (Buy)	-	-	8.3125	8.125	-	
Bank Bills (Buy)	-	-	8.6875	8.218750	8.218750	-
Fine Trade Bills (Buy)	-	-	9.00	8.875	8.875	-
Dollar CDs	-	-	8.00-7.95	7.75-7.70	7.75-7.70	8.00-7.95
SDR Linked Dep Offer	-	-	6.4375	6.375	6.375	6.625
SDR Linked Dep Bid	-	-	6.375	6.125	6.375	6.375
ECU Linked Dep Offer	-	-	6.8125	6.875	6.875	7.00
ECU Linked Dep Bid	-	-	6.6875	6.75	6.75	6.875

Treasury Bills (sell): one-month 8⅛ per cent; three months 8 per cent; Bank Bills (sell): one-month 8⅛ per cent; three months 8⅛ per cent; Treasury Bills; Average tender rate of discount 8.2877 p.c. ECGD Fixed Rate Sterling Export Finance. Make up day NOVEMBER 30, 1987. Agreed rates for period DECEMBER 26, to JANUARY 25, 1988, Scheme I: 10.51 p.c., Schemes II & III: 10.25 p.c. Reference rate for period OCTOBER 1 31 to NOVEMBER 30, 1987, Scheme IV: 9.008 p.c. Local Authority and Finance Houses seven days' notice, others seven days' fixed. Finance Houses Base Rate 9.5 from DECEMBER 1, 1987: Bank Deposit Rates for [illegible]

SECTION III

FINANCIAL TIMES SURVEY

Japanese Industry

Illustration by Simon Stern

CONTENTS

Even the high value of the yen has failed to knock Japan's industry off course in its drive to stay ahead. With remarkable agility, it has met demands to switch some production units overseas and boosted research spending to find new products, says **Carla Rapoport**

A year of stunning adjustment

WHEN WILL Japanese industry stop astonishing the rest of the world? Earlier this year, Japan appeared to be travelling down a familiar road. Unemployment was rising, output was stagnant, profits were down. There was even a blockbuster political row which led to the removal of the country's media star prime minister, Yasuhiro Nakasone.

But the expected did not happen. Japan stayed on its independent course, shifting with agility from the world of the low, undervalued yen to the harsher terrain of the high yen.

Those who are tired of success stories from the land of *sushi* and *sumo* will have to put down this survey. Japanese industry is still thriving. As with all success stories from Japan, this one is rich with statistics.

Corporate earnings for the second quarter of this year were up by nearly 30 per cent. By August, unemployment was down to 2.8 per cent and industrial production was running at annual growth rate of 5 per cent.

Despite a 45 per cent appreciation of the yen, not a single notable bankruptcy was recorded in the export sector, or indeed any other sector. In short, it has been a year of stunning adjustment. The public howls of panic from industry when the yen began its climb against the dollar have now given way to palpable confidence. Capital investment is on the rise, new gizmoes are unveiled every week and Japanese are continuing to lead the way in all kinds of things from facsimiles to robots to video games for children.

This game, however, has not been won single-handedly. Japan's industry entered the endaka (high yen) era with its pockets full of cash from the years of exporting on the strength of an undervalued yen. And when things began to get tough this year, the government came out with a valuable pump-priming budget which added much-needed vigour to the domestic economy.

On top of this was the record bull market which, until late October, allowed companies handsomely to supplement their profits through financial investments. Further, Japanese companies continue to benefit from a compliant workforce and stable shareholder bases.

The hostile take-over has yet to arrive in Japan, for example. Even agreed mergers are thin on the ground. The union movement in Japan remains fragmented, with most strikes either symbolic or short nuisances for management. And as for Japan's smokestack sector, the government has played a crucial role in encouraging these industries to cut back on capacity and employment.

Thanks to generous tax and financial incentives plus compensation packages from government, Japan has permanently changed the shape of its industrial landscape. For example, the number of people working in the steel industry has dropped from 140,000 to 100,000. The production of coal in Japan will be halved by 1991 to 10m tons a year. By April of this year, Japan had just one aluminum smelting company, down from seven five years ago.

Japan's exporters, however, have acted without any help or prodding from the government. They have acted on three major fronts: reducing costs, increasing overseas production and stepping up product development. As a result, despite a sharp drop in Japan's volume exports this year, profits are increasing.

Cost reduction, labelled "costdown" in Japanese, has taken every form from reduced bonuses for white-collar workers to increased productivity on the manufacturing line. Hitachi's huge Tokai VTR assembly plant, for example, has been almost fully automated and is now run by just 4 workers. The time it takes to make a VTR has been reduced from 3 minutes to just over a minute and a half. Costs have also been squeezed through increased use of cheaper, imported raw materials and components. Japan's ratio of imports of manufactured goods has leapt from 31.5 per cent in 1985 to 45.3 per cent in September of this year.

Imports of plywood from Indonesia, cashmere from China, steel rods and bars from South Korea have been soaring in recent months. Imports of plywood alone, for example,doubled to more than $100m in the first four months of this year.

Japan's big exporters, however, have been just as quick to shift production to cheaper offshore sites. Direct foreign investment more than quadrupled to about $110bn, according to the Ministry of Finance, in the year ended this March compared to the previous year.

Most of this investment was made in North American, followed by Southeast Asia and Latin America. Europe was in fourth place with about 14 per cent of the total.

This movement has been most pronounced at the lower-end of the Japanese product range. But recently, the trend has been to establish overseas production sites for high technology products as well. NEC, for example, decided to produce its sophisticated 1 megabit semiconductors in Scotland while Toshiba is now making its fast-growing lap-top computer in the US.

It is through continued product development, however, that Japanese industrialists believe they can hold onto their worldwide edge in sectors such as consumer electronics and office equipment. Despite the effects of the high yen on margins, Japanese companies have increased, not cut, research and development. As a result, the latest advances in a whole range of fields are now coming from Japan. These new products, from microchips to luxury cars, are winning higher prices for the Japanese in overseas markets.

"The most important thing for our survival is not the value of the yen, but the development of new technologies. That is where our future lies," says Mr Masanobu Ikeda, general manager and director of corporate finance at JVC, the consumer electronics company.

Mr Ikeda well sums up the sentiments of most of Japan's leading industrialists. Japan cannot wait for outside factors to swing in its favour. It must continue to think up products that the rest of the world wants to buy.

At the same time, Japan's domestic industries have not been idle during the past year or two. Retailers have been quick to seize the opportunity of using cheaper imports, largely from Asian countries, to boost sales. Domestic banks have become more innovative and assertive in the consumer finance arena, further boosting consumer spending. And in Japan's telecommunication, aviation and railway sectors, government deregulation has added spice to these businesses.

On the downside, however, the yen's appreciation has forced the big exporters to become more active in the domestic market, which in turn has squeezed the medium-sized players. Competition in the car and electronics fields, for example, has become intense in Japan. In audio electronics, red ink is most noticeable. But so far, there have been no bankruptcies as companies work together with their banks and suppliers to find new products and increase offshore production.

"As long as domestic demand continues (to grow), industry can continue on its path of growth and keep on changing in a good way - away from export growth and towards a more broader-based growth pattern," says Mr Keiichi Nagamatsu, assistant director of financial affairs at the Keidanren, Japan's Federation of Economic Organisations.

From the foreigner's point of view, the high yen has provided a golden opportunity for increasing their penetration of the Japanese market. Although progress remains slow, the biggest strides have been made in the auto market, primarily by European makers such as BMW.

But the biggest gains on imports have been from South Korea, Taiwan and Hongkong. In the first nine months of this year, imports from those countries soared by 70 per cent to $11.5bn. Imports from EC jumped by 29 per cent to $12.4bn while the US showed an increase of 3.3 per cent to $22.8bn.

How the Government's key ministry influences companies

Miti is still at work, though its days of glory are past

THE INDUSTRIAL policy in Japan continues to be among the most admired in the world. Despite continued shocks to the system, industry, government and labour still work together in ways which other nations can only envy.

This system works for a very simple reason. All the parties involved, from the lowly part-time worker to the head of state, are agreed that Japan's economic health is dependent on the health of industry. There is nothing particularly inscrutable about this, or indeed xenophobic. The Japanese, despite their increasing affluence, still live for their work.

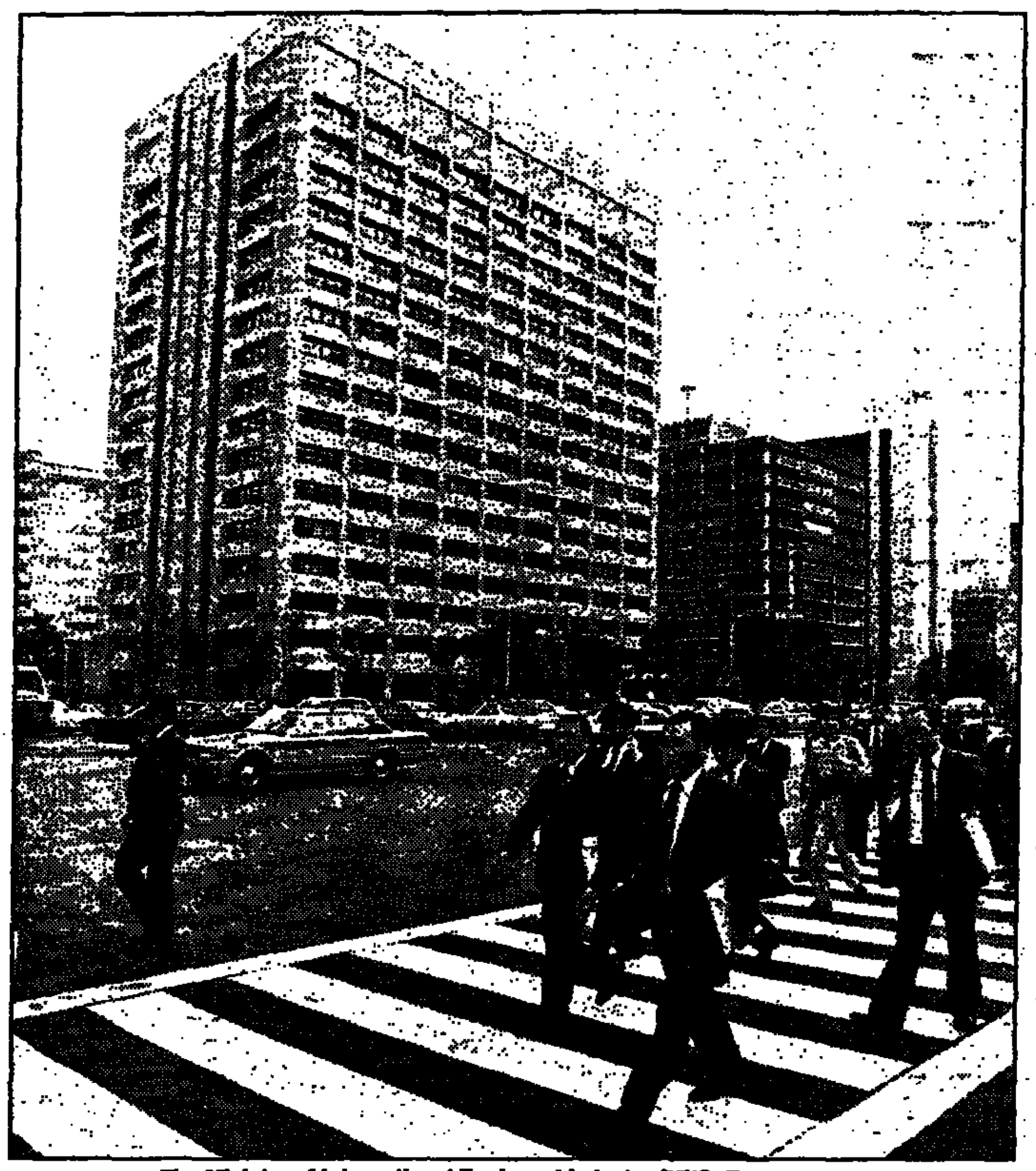
As a result of these and other cultural reasons, such as a stable political back-drop, a highly-educated workforce and a docile union movement, Japan's industrial policymakers have long enjoyed a headstart over their counterparts in other nations.

None the less, the role of industrial policy and the Ministry of International Trade and Industry (Miti), its prime mover, has changed dramatically over the last few decades. As Japan's industry grew into a colossus of economic power, the Government's role in influencing industry waned. The grand and glorious days of Miti came to an end some years ago when industry no longer needed to be protected from outside competition.

In years since, Miti has concentrated on such things as rationalisation of smokestack sectors, pollution control, energy policy, technological development and international trade disputes. The continued strength of Japanese industry was not so much to do with special dispensations or favours from government. It was as much the result of the intensely competitive spirit of Japanese industry itself, set within the context of a supportive regulatory environment.

In their book, Kaisha, James Abegglan and George Stalk explain that Japanese companies are committed to growth, are preoccupied with the actions of competitors and are determined to create and ruthlessly exploit any competitive advantage.

"Prices are set not at the level that the market will bear, but as low as necessary to expand the market to fit the available capacity. Costs are programmed to come down to support the pricing policies and investments are made in anticipation of increased demand," according to Abegglan and Stalk.



The Ministry of International Trade and Industry (Miti), Tokyo

To take an excellent example of this thesis, one can turn to the microchip, the brains behind everything from calculators to supercomputers. In 1985, aggrieved Americans, who had pioneered the chip market, charged that the Japanese, led by Miti, targeted the US chip market for destruction by dumping cheap chips in the US. To add insult to injury, the Japanese colluded to keep their own market closed to foreign chip makers.

From Japan's point of view, the domestic chipmakers were only investing in new capacity (despite a slump in world demand) in order to improve their design and production technology, keep their costs down and, over the long-run, maintain growth.

Miti's role in the dispute was clear from the start. It aimed to solve the problem by reining in the Japanese chipmakers. The problem had arisen from the intensely competitive nature of the Japanese, which from the US viewpoint amounted not to competition but assault. The giant Japanese electronics companies, with their widely diversified product bases, could afford to invest in the chip business despite slumping demand. The US companies, with less breadth, could not keep up.

Miti launched an exhaustive campaign to monitor chip output, demand, and production costs in Japan; chip export prices in the US, South-East Asian markets and Europe; and purchasing patterns of Japanese chip consumers. In an unprecedented bilateral pact signed just over a year ago, the Japanese Government pledged to halt the alleged dumping of chips and to increase purchases of foreign chips.

Japanese industry was far from pleased with Miti's directives on the chip issue and implementation has gone somewhat slowly. In April of this year, the US imposed $300m worth of punitive tariffs on Japanese exports in protest against the failure of the bilateral chip pact. It has since lifted more than half of the sanctions, saying that chip dumping has ceased. On the market access issue, Miti is still at work, hammering at industry to increase its purchases.

"Miti is often referred to as the leader of 'Japan Inc' abroad," says Mr Shinji Fukakawa, vice minister of Miti. "In fact, it would be utterly impossible for a single government agency to dictate the workings of today's highly developed industrial society."

Japan's trade and industrial policy, he says, is based on market principles. "Government policy is deployed only in a supplementary role in the event that market principles are insufficient to meet the needs of the national economy.

"Under the market mechanisms alone, the allocation of resources most suitable for long-time economic development may not take place, as seen in the difficulties of promoting stockpiles of petroleum, large-scale R & D projects and the movement of labour from depressed industries to growing ones," he says.

Miti continually grinds out "visions" for industry, which describe the direction which industry will take in future. The latest of these, completed just over a year ago, provided much of the work behind the much-heralded Maekawa report. That report advised Japan to shift to a more diversified domestic economy and away from export-led growth.

This objective is being achieved without Government help, however. The single factor of the appreciation of the yen has pushed industry into doing what the Government could only talk about. Exports are falling, imports growing and direct investment overseas is increasing at a phenenomenal pace. When this adjustment is complete, the era of trade friction for Japan may at last be over.

Mr Fukakawa easily admits that the robust nature of Japanese industry has meant less and less work for Miti over the years. For the future, he sees that the agency has two prime objectives: the promotion of technical innovation and the creation of new job opportunities to compensate for those which have been moved offshore.

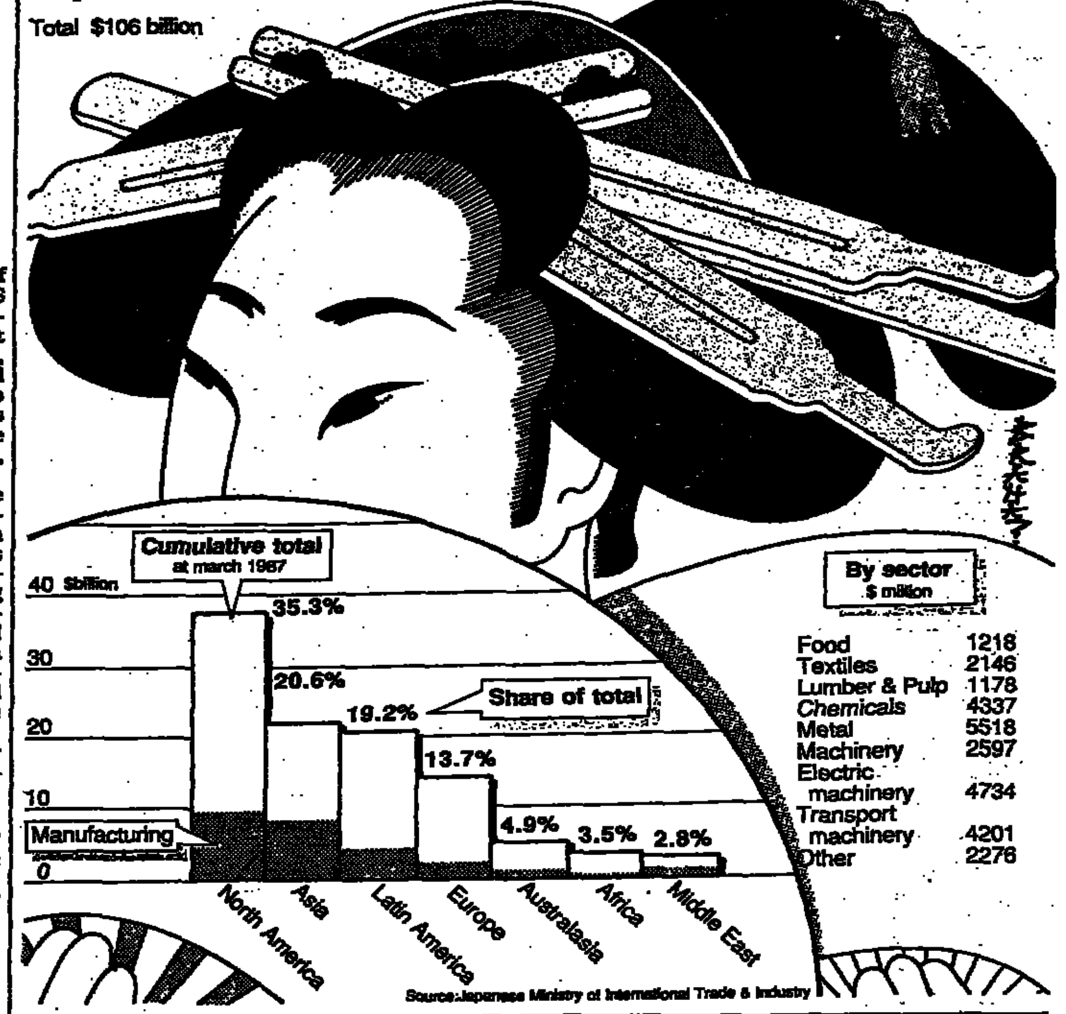
"In order to maintain economic growth, we must increase our our innovation and avoid the crisis of unemployment," he says. He sees the services sector as a target for expansion. But there is no sense of panic in his voice.

Japan has seen much worse problems that those its industry now faces. The system which has worked so well to date will no doubt serve Japan well into the next century.

Carla Rapoport

Japan's direct investment overseas

Total $106 billion



Source: Japanese Ministry of International Trade & Industry

A business guide to MITI

Not so mysterious

THE VERY word Miti, Japan's Ministry of International Trade and Industry, strikes an emotional chord with foreigners. It conjures up an image of Japan Inc, of conspiracies, of smoke-filled rooms where foreigners are excluded.

In fact, Miti is perhaps the most accessible ministry to the foreigner and the most straightforward about its policies. Almost every department now has a fluent English-speaker and Miti officials are positively keen to meet foreigners to explain their views on Japan's industry, economy and its place in the world.

Security-conscious visitors to Tokyo will find they can enter the Miti's gleaming tower block in Kasumigaseki without showing any identification or undergoing any security check. Unlike the gloomy, dilapidated Ministry of Finance or the Foreign Ministry's citadel nearby, Miti positively welcomes foreigners of all stripes and persuasions.

Because of Miti's important place in Japanese society, it is a good idea to take advantage of this openness whenever possible. Most foreigners, however, remain unclear about how the ministry functions.

The following is a brief road-map to Miti-land; an attempt to de-mystify the mysterious. Miti officials are still among the best and the brightest of Japan's graduates. Each year, more than 32,000 university graduates take the exam for high-grade civil service jobs in Japan. Last year, only one in 19 passed. Of these, 600 applied to Miti and 46 were selected.

Together, about 12,600 people work for Miti, with a budget of Y650.6bn, less than 2 per cent of the national budget. The ministry's statutory powers are relatively small compared with other government ministries such as finance or post and telecommunications. However, Miti has a powerful influence over industry through its ability to guide, rather than intervene, on matters of national concern.

Foreigners often find it hard to understand why industry would agree to follow Miti's guidance. The simple reason is that industry, in a variety of forms, is included in Miti's decision-making process. As a result, industry can both influence Miti's thinking and prepare for what is coming down the road at the same time.

If, for example, it thinks that Miti's rationalisation plans for its sector are too onerous, it can seek a better package of depreciation allowances or tax breaks. Or, in the controversial cases of alleged dumping and Miti-enforced producion cutbacks, it will usually have had months to prepare for the cuts.

Its participation in the decision-making process is through regular contact with the ministry which divide into five categories:

- *The provision of information* between industry and Miti, which flows both ways. Miti uses commercial information from industry to develop long-range strategies for industrial structure and growth. These, in turn, are passed on to industry on a regular basis.
- The provision of tax and financial incentives. In addition to developing and administering these aids to industry, Miti also advises on special financing facilities provided by government institutions such as the Japan Development Bank, the Export-Import Bank and the Small Business Finance Corporation.
- The provision of statutory regulations. These regulations cover environmental safety, export regulations, anti-trust legislation, supervision of public utilities among others.
- The provision of administrative guidance. Some of these directives have legal basis and others do not, but in either case, industry is formally free to accept or reject them. In almost every case, however, industry obeys Miti's guidance. As a top Miti official explains: "Industry is aware of the way this advice fits in rationally with the context of the economy as a whole."
- The provision of advisory committees. Including academics, journalists, trade unionists and industrialists, these committees develop long-range strategy on such topics as for example, the next generation of computer technology. As a result, Miti officials enjoy daily contact with Japanese industry.

These contacts are not compulsory and are most often initiated by the industrial side. Every company in Japan has at least one official, if not a whole department, who is in regular contact with Miti on non-statutory matters. Industry associations, however, handle the bulk of the gathering and processing of the information exchanged between industry and Miti.

The actual structure of Miti is straightforward. It has 14 bureaux and deparments which formulate trade and industrial policy which is then applied either across industrial sectors or specifically to single or related industries. These divisions include the Minister's Secretariat for overall coordination, the International Trade Policy Bureau charged with maintaining and developing smooth economic relations with other countries and the International Trade Administration Bureau, the administrative arm of the Trade Policy Bureau.

The domestic bureaus include the Industrial Policy Bureau, Basic Industries (covering the capital-intensive sectors) and Machinery and Information (covering electronics, motor cars, etc), Consumer Goods, Patent Office, Natural Resources and Energy, Small and Medium Enterprises, the new Miti research institute and Miti's eight regional bureaus.

Miti also embraces the Agency of Industrial Science and Technology which formulates policy relating to industrial technology and takes the initiative in research and development through its 16 research institutes.

If any agency is at the heart of Japan's industrial future, this one is. With an annual budget of around $770m, AIST acts as a catylist for Japan's research efforts in the private sector. The agency is currently putting a high priority on biotechnology, electronics, new energy sources and new materials.

Overall, the system continues to work well, even though industry needs less governmental guidance than it once did. It works because industry uses the system for its own ends, by participating in the decision-making process as much as possible. There is no law which excludes foreigners in Japan from participating in this process. According to Miti, the door is open.

Carla Rapoport

The reluctant multinationals

JUST AS JAPAN'S exporting companies are emerging from a turbulent, though remarkably successful, two-year struggle to adjust to the impact of the yen appreciation unleashed by the Plaza Agreement, many of them are having to confront another - and in some ways still more daunting - challenge, which heralds a significant shift in the direction of their international strategies.

For most of the past two decades, Japanese manufacturing industry's highly effective attack on global markets has been mounted from a production base firmly entrenched behind its own national boundaries. But suddenly it is under growing pressure to transform itself from an exporter of finished products into an exporter of capital, plant and technology and to devise ways of managing extended networks of overseas subsidiaries scattered around the world. In short, Japanese manufacturing is poised to go multinational.

The clearest indicator of the speed of the change is the hefty increase in direct foreign investment by Japanese companies in the past few years. From \$7.7bn in 1982 the outflow soared to \$22.3bn in the year ended last March, when the cumulative total reached \$106bn. If anything these figures, calculated by the Ministry of Finance, may be an understatement, since they do not take account of locally-financed investments.

Admittedly, last year's outflow came to only a little more than 10 per cent Japan's worldwide exports. Furthermore, roughly three quarters of its total direct investment to date, \$74.3bn, is accounted for by non-manufacturing industries, headed by banking, insurance and large trading houses: manufacturers contributed only \$28.2bn.

However, to judge by the plans announced by a number of major companies, overseas expansion of manufacturing is only starting to get into its stride and should accelerate strongly in the next few years. For instance

* Komatsu, Japan's biggest maker of earth moving equipment, expects to increase the proportion of its total sales produced abroad from about 7.5 per cent this year to around 35 per cent in less than five years.
* Sony, the consumer electronics manufacturer, which has 70 per cent of its sales abroad, plans to raise the proportion made overseas to 35-40 per cent by 1990 from 20 per cent last year.
* Nissan, the automotive manufacturer, aims to triple its overseas production of cars and trucks from 213,380 last year to 650,000 in 1990, or more than a third of its total projected sales.

This drive is being spearheaded, not surprisingly, by the major exporters. However, more is involved than simply an attempt to substitute local production overseas for some existing exports. For following in the wake of the leaders are many smaller companies with little or no previous international experience.

For instance, decisions by many of Japan's main vehicle makers to establish plants in the US have prompted more than 130 of their parts suppliers to do likewise. In Western Europe, political pressure on Japanese electronics companies to increase local manufacturing content is likely to prompt the arrival *en masse* of components makers in the next few years, according to the Electronics Industry Association of Japan.

The most intriguing question is whether these trends will lead to an acceleration of the thrust of Japanese industry on world markets or slow it down

Overall, Japan's Economic Planning Agency forecasts that the share of the country's manufacturing output made overseas will grow from 4.3 per cent last year to 8.2 per cent in 1993. In the electronics, machinery and automotive industries, which together account for the bulk of Japan's manufactured exports, it expects the overseas component to be much higher - more than 16 per cent in 1993.

To those alarmists in the west who suspect that Japan is engaged in a sinister conspiracy to dominate world markets, all these developments will no doubt appear the logical next stage in a carefully-coordinated master plan. There may be a grain of truth in this view: there is little doubt that the Japanese government sees increased local production in overseas markets as a way of de-fusing political anxieties among its leading trading partners about the size of its trade surplus and is quietly assisting the process wherever it can.

"I think this tendency towards multinationalisation is inevitable and not a bad thing," says Mr Naohiro Amaya, a former vice-minister of the Ministry of International Trade and Industry, who believes that the long-term result will be to diversify the composition of Japan's international trade. "We have to enlarge our 'horizontal' trade," he says. "It has become much too 'vertical' because we have traditionally imported only raw materials and exported only manufactured products."

However, if there is some comprehensive grand design behind the rush to multinationalise, it is exceedingly hard to decipher. In the vast majority of cases, it seems to be motivated much more by fear than by greed. With few exceptions, it is perceived by many companies as a necessity borne out of a desire to preserve international market share rather than a massive land-grabbing exercise.

Furthermore, it is being taken with a good deal of uncertainty and reluctance. Many companies insist that they would really prefer to stick to their proven exporting methods if that were possible and that their international expansion is proceeding by a process of trial and error. Talk about the dangers of the 'hollowing out' or 'deindustrialisation' of Japan's domestic economy, due to the move of production offshore, is widespread.

The twin driving forces are the strength of the yen and the growth of trade protection. But the relative importance of each of these factors varies considerably, depending on the particular sector of industry in question and, first and foremost, on the geographic region where the investment is being made.

Japan's manufacturing investment in the newly industrialised countries (Nics) of Asia (roughly a fifth of direct Japanese investment worldwide) has been prompted principally by a search for low-cost locations for assembly and the supply of simpler components. Gaining access to the Nics' protected markets is very much a secondary factor, as evidenced by the fact that the capacity of many Japanese plants there vastly exceeds local demand.

The priority given to cost-reduction is underlined by the increasing propensity among Japanese companies to switch labour-intensive operations from one Asian country to another in response to shifting wage levels and exchange rates. Thailand, politically stable and relatively inexpensive as a production base, is currently preferred by many Japanese companies to South Korea and Taiwan, which are considered by some to be in danger of pricing themselves out of the market.

In the US, home for more than one third of Japanese manufacturing investment, the weakness of the dollar has lowered wage rates in some industry sectors to close to the Japanese level. However, the strongest motivation is to avoid trade protection - or the threat of it - which could lock Japan's exporters out of the world's largest and wealthiest market.

Japan's car manufacturers stampeded to set up American plants in response to the export curbs imposed in the early 1980s, just as makers of colour television sets did after controls were imposed on their exports in the early 1970s. But makers of video-recorders (which no US manufacturer currently produces) have felt much less compulsion to establish local production.

A broadly similar pattern prevails in Western Europe, where the growth of Japanese local production has closely mirrored action by the Community to restrict exports. However, the cumulative value of Japanese direct investment in Europe remains exceedingly modest, at \$14bn less than 14 per cent of the worldwide total - a share substantially exceeded by Latin America.

There seem to be two main reasons for this relative lack of interest in Europe. One is that most European currencies have fallen by far less than the US dollar against the yen, making Europe an expensive place to produce. Even in the UK, where sterling fell sharply last year, many Japanese manufacturers say their production costs are 20-30 per cent higher than at home.

This discrepancy is exacerbated by the adverse economies of scale imposed by the fragmentation of European markets, due to national trade barriers, a mish-mash of differing technical standards and other structural and political barriers which also tend to induce sluggish demand.

From the standpoint of Japan's western competitors, perhaps the single most intriguing question raised by these trends is whether they will lead to an acceleration of Japanese industry's thrust on to world markets - or slow it down.

Undoubtedly, Japanese manufacturers still face some awkward hurdles. Few have much experience of managing at long-distance, and it is questionable how successfully corporate structures and management styles moulded by the distinctive requirements of their national business culture will mesh with the much more heterogeneous requirements of the outside world. Doing business in western Europe in particular will also require gestures towards national political sensitivities which may not always be congruent with maximising short-term profits.

It is also uncertain how far Japanese companies will be able to replicate overseas the formidable quality, cost and production efficiency, particularly among their suppliers and sub-contractors, which they enjoy at home. How far they themselves will be able to adapt to local components, and how far they will go to change the practices of indigenous suppliers, remains unclear.

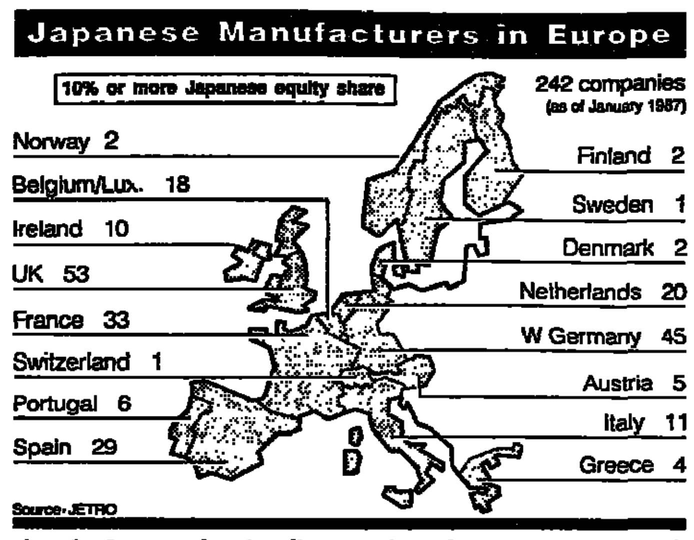
Against that, many Japanese companies are well aware of these issues and are applying themselves to find solutions. Some, indeed, are already thinking well beyond them. Both Honda and Komatsu, for instance, are talking in terms of developing highly sophisticated international manufacturing networks, in which production would be distributed between plants in different countries so as to maximise capacity utilisation and efficiency on a truly global scale.

Two conclusions, at least, can be hazarded with some confidence. The first is that a major shift is now under way which promises over time to alter the structure and geographic distribution of the world's manufacturing sector. The second is that Japan's manufacturing industry will no longer be able to retain its psychological and operational detachment from the rest of the world. From now on, it appears set to become more integrated with the overseas markets which, as an exporter, it has been so immensely successful in serving.

Guy de Jonquieres
International Business Editor

Relations with Europe

Turn of the screw



Source: JETRO

DURING THE past year, the increasingly tense exchanges between the European Community and Japan over trade matters have taken a new turn. The area of disagreement, hitherto concerned largely with physical exports and imports, has been enlarged to include Japanese direct investment in the EC.

The source of contention is a regulation, approved last summer, which empowers the Community to extend anti-dumping duties to goods produced by Japanese plants in the EC. It is intended to prevent Japanese companies from circumventing conventional anti-dumping penalties on finished products by setting up "screwdriver" plants which merely assemble dumped components imported from Japan.

The regulation, which also contains strong incentives for the Japanese to increase local content at their EC plants, was adopted in response to energetic lobbying by European industry, which has been increasingly active in lodging dumping complaints against Japan in the past few years.

Since the regulation took effect, the Commission has opened dumping investigations into more than half-a-dozen Japanese plants in the Community, most of them in Britain. The products concerned include typewriters, weighing scales and earthmoving equipment. The Commission is also being urged by European suppliers to launch an inquiry into copiers.

While the EC insists that its new powers are designed purely to stop unfair Japanese trade practices, its move is apparently intended also to convey a broader political message. This is that Japanese inward investment is welcome only if it serves to offset trade imbalances and strengthen local economies through increased local components sourcing and greater involvement by Japanese companies in their host economies.

Mr Michael Graham, an official in the Commission's industry directorate, publicly taxed Japanese companies on this score earlier this year, pointing out that their collective activities in the EC employed fewer people than the European operations of IBM, the large American computer manufacturer.

Japan has reacted angrily to the regulation, which it is challenging in the General Agreement on Tariffs and Trade (Gatt). Before it was passed, the Keidanren, the federation of economic organisations, suggested that, far from accelerating direct investment by Japanese industry in the EC, it could result in a boycott.

This warning was, no doubt, deliberately calculated to play on fears, both at a Community and a national level, that Europe is in danger of falling still further behind the US in attracting Japanese investment flows.

These anxieties have been further heightened by the possibility of a diversion of Japanese car exports to the EC as US production facilities come on stream. Honda has already announced plans to start exporting cars from its plant in Marysville, Ohio, and it is feared that other manufacturers may seek to use domestic production capacity no longer needed for exports to the US to launch an all-out onslaught on European markets.

The difference in direct investments in the two regions is, indeed, striking. Though more than 240 Japanese companies have established themselves in Europe, their cumulative direct investments as of last March totalled \$14.5bn, compared with \$ 37.4bn invested in North America. The gap in manufacturing investments is even wider - \$2.5bn in Europe against \$9.9bn in North America.

These discrepancies are only partly explained by Japanese industry's greater dependence on the US market - and the importance it attaches to securing its position there in the face of trade restrictions. Its exports to the US last year amounted to \$80.5bn, or 38.5 per cent of its worldwide total, compared with \$30.7bn to the EC.

Psychology has also played a role. Many Japanese companies complain that Europe is a difficult and uncongenial environment in which to do business. Fragmented national markets, differing standards and closed distribution systems make it hard to achieve the economies of scale available in the US, while political factors are considered to intrude unduly into commercial decisions.

"The Japanese view Europe as technologically backward, a bunch of separate national markets, no one of which is critical to them," says Mr James Abegglen, an American business consultant and professor at Sofia University in Tokyo.

This antipathy has persisted despite a sea-change in European national attitudes towards Japanese direct investment. After years of coolness, indeed downright hostility, European countries and regions today vie fiercely with each other to attract Japanese plants with offers of generous public subsidies.

Britain has taken the lead, publicly embracing Japanese investment as a salutary competitive stimulus to indigenous companies and a means of regenerating the country's industrial base as well as a source of employment. Even France, which until the early 1980s was largely closed to Japanese investors, has joined in the fray.

This competition to lay out the welcome mat is in striking contrast with the increasingly hard line on Japanese trade issues taken at EC level. Indeed, the two are in at least one sense contradictory : for many of the "screwdriver" plants which Brussels so vigorously condemns have been set up with the aid of

Continued on next page

US market

Alarm bells still ringing

LAST YEAR, Japanese companies invested something like $2bn in new production facilities in the US. The figure was easily a record. It meant that fully 45 per cent of Japan's international direct investment went into the US.

It also helped to push the Japanese, with total direct investment of $23.4bn, towards the top of the league of foreign investors in America, trailing only the British and Dutch.

However, figures like these fall a very long way short of justifying euphoric conclusions about the way that foreign-based production might gradually overcome Japan's currency valuation problems and eventually help to bridge the enormous trans-Pacific trade gap.

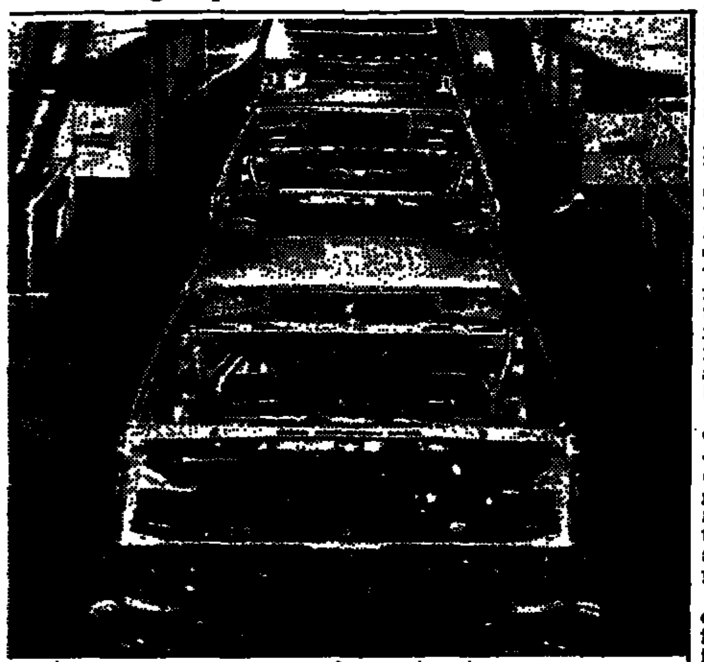
In relation to the size of the US and Japanese economies - and, even more importantly, against the background of the trading and financial imbalances between the two countries - Japan's overseas investment is just a drop in the ocean.

To put the figures in perspective, Japan's total direct investment in the US, including numerous large acquisitions in property and finance, as well as production and distribution, came to $4.1bn last year, according to figures published by the US Commerce Department.

Japan could have paid for the whole year's investment with a single month's trade surplus against the US.

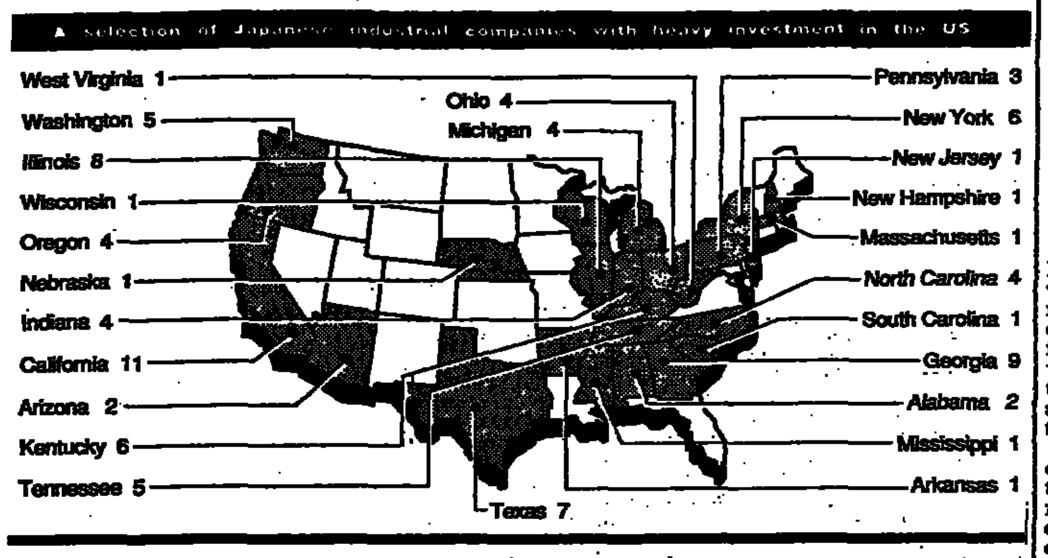
Its total direct investment, which includes the acquisition of any equity stake of 10 per cent or more in an existing business, was less than one quarter's portfolio investment in the US stockmarket by Japanese financial institutions in the early part of this year - and only slightly higher in value than the single $2.8bn acquisition of Celanese Corporation by Germany's chemicals giant Hoechst.

There are admittedly several caveats relating to these statistics. First, they are somewhat out of date. Japanese direct investment in America has been growing at around 20 per cent annually since the early 1980s. This year, it is likely to have exceeded $5bn. There does not, however, seem to have been any marked acceleration recently in the steady 20 per cent rate of advance.



A spot-welding line at Nissan's Tennessee plants where the company has recently spent about $800m to scale back car production in favour of truck assembly

A selection of Japanese industrial companies with heavy investment in the US



Second, the Commerce Department's official figures understate the true level of foreign involvement in the *US* economy, because they exclude the element of any foreign direct investment which is financed by borrowing in dollars from US banks. This procedure is appropriate in gauging the balance of payment significance of overseas investment and the part that foreign industrial companies play in helping to finance the US trade deficit.

But it does mean that the true level of foreign control over US industry is a good deal higher than suggested by the official statistics.

However, in terms of the comparisons from year to year, across industries and between foreign investors from different countries, official statistics do probably give the best picture available.

This picture shows Japan as an increasingly important, but not by any means a dominant presence among foreign investors in the US. The Commerce Department figures also suggests that, despite the blaze of publicity which surrounds every Japanese investment in American production, Japanese companies are much more interested in financing and distributing their goods and than in making them in the US.

Manufacturing accounted for only $304m or seven per cent of Japanese involvement in US direct investment last year. The great bulk of the Japanese money went into wholesale distribution (28 per cent), finance and banking (24 per cent) and real estate (23 per cent).

For Japanese manufacturing companies, the key area of investment has been wholesaling, with a view to smoothing the passage of goods which continue to be made overwhelmingly in Japan and satellite plants in the Pacific Basin. The best illustrations of all these characteristics of Japanese investment are to be found in the country's pre-eminent export industry - motor cars.

Over the past five years, every Japanese carmaker has started building US manufacturing plants. Within the last few months, Honda and Toyota have both announced plans for major expansions of their US plants and undertaken to increase the domestic content of their American-assembled vehicles to 75 per cent by the early 1990s.

On closer inspection, however, this trend does not really justify some of the euphoria about the Japanese car industry's imminent internationalisation. Honda, by far the most internationally oriented of the carmakers and the one which has had most success in bringing its US productivity up to Japanese levels, is planning to increase its local output to 500,000 units by 1990 and has talked of exporting American-built cars to Japan and Europe. By then Honda will have invested $1.7bn in US production.

However, Honda currently sells 750,000 cars in the US market, 420,000 of them imported from Japan. Experience in the last two years suggests that Honda is unlikely to cut back much on its imports as US production rises. Its preference would obviously be to increase market share.

Toyota's continuing dependence on imports is more clear-cut. Even after the $300m engine facility announced in November, its present plans call for US production capacity of fewer than 300,000 units by the early 1990s. At present Toyota sells over 900,000 cars a year in the US.

Nissan, the third of the big Japanese car manufacturers occupies an intermediate position between Honda and the export-oriented Toyota. Nissan has spent about $800m on its plants in Tennessee, but recently scaled back car production there in favour of truck assembly and a somewhat higher volume of imports.

Including the three smaller carmakers - Mazda, Mitsubishi and Subaru-Isuzu - the Japanese will have spent between $5bn and $5.5bn on direct investment in the US auto industry by the early 1990s when all the projects announced so far are expected to come on stream. Their annual US car production will exceed a million units.

To put these figures in perspective, however, it is worth recollecting three other figures. Between 1980 and 1986, General Motors alone invested $20bn, roughly four times the combined spending of all the Japanese manufacturers, on updating its facilities. By the time Honda, the biggest of the Japanese investors has all its plants at full production, it is expected to employ between 7,000 and 8,000 people in its facilities at Marysville, Ohio. GM currently employs 70,000 people in the state of Ohio alone.

Finally, and most importantly, the total value of Japanese investment in US motor manufacturing is equivalent to about two months' worth of Japanese car imports to the US.

To make matters worse for the US trade balance, the initial effect of Japanese direct investment will undoubtedly be to increase the deficit on motor vehicle trade. The components which are being imported to put into Japanese-assembled vehicles could add around $20bn annually *to the US trade deficit*, according to some Wall Street estimates, unless the so-called 'immigrant' production 'cannibalises' cars at present imported from Japan.

During the past year Japanese imports have maintained their US market share, and there has been little sign of 'cannibalism' as immigrant vehicles have taken business away from the domestic manufacturers. It is not surprising therefore, that the US auto industry is now beginning to demand protection not only from the Japanese car imports *but also from their domestic production.*

Anatole Kaletsky

Local procurement

Invisible element

IT HAS taken Western industry a while to realise it, but a vital reason for Japan's relentlessly competitive manufacturing performance has been an element which remained largely invisible to the rest of the world: its small and medium-sized sub-contractors.

While many of Japan's larger companies have long been proud to display their impeccable factories, replete with rows of highly-disciplined production line workers and robots, these wonders of efficiency are only as good as the unsung army of suppliers delivering regular consignments of materials, parts and sub-assemblies at the back door.

Without such dependable and adaptable supply lines, just-in-time stock control and high quality would be impossible to achieve.

Equally, in Japanese industry's drive to restore competitiveness in the face of the sharply-rising yen, it is the suppliers who have taken much of the strain, loyally obeying directives from their major customers to reduce costs and raise productivity.

Transplanting production abroad, obviously, disrupts this delicately balanced and tightly-integrated system. Most larger Japanese companies, even those publicly committed to achieving a high level of local content at their overseas plants, insist that there is a definite loss of efficiency and that it is a struggle to obtain from foreign suppliers the same standards that they are used to at home.

The problem is further complicated when the companies are also struggling to instil in the plants themselves working practices common in Japan but often unfamiliar to foreign employees.

As Mr Ken Iwaki, head of corporate planning at Sony, puts it: "From the point of view of cost, it is usually most economic to concentrate all worldwide production in one plant. The ideal would be to have Japan as the factory for the world, but other countries would never accept that."

It is not hard to understand why, if they can get away with it, many companies prefer to set up "screwdriver" plants overseas, which do little more than assemble imported components. In one extreme case, a Japanese copier plant set up in West Germany, "every single part was imported from Japan, right down to the *screws,*" *according to one European Community official.*

The EC has been progressively applying pressure on Japanese companies to buy more of their components for their European *factories from within the Community.*

In the US, official arm-twisting has so far been less forceful and explicit, but many Japanese companies recognise that it is *politically wise* to achieve as high a level of local content at their American plants as they can.

Most insist, however, that obtaining competitively-priced parts of suitable quality is not easy. Mr J. Akatsu, head of production at Komatsu, the large earthmoving equipment maker, was unusually outspoken recently in blaming problems with local suppliers for depressing output and raising costs at its plant in northern England, which opened last year.

In electronics, according to the Electronics Industry Association of Japan (EIAJ), "our members are complaining almost unanimously about their European component suppliers. These are strong, though expensive, only in areas like defence and telecommunications where there is little competition and big government subsidies.

"In sectors where the market is open, like consumer electronics, they are just not competitive."

Such Japanese criticisms undoubtedly have some validity. They are echoed, for example, by IBM, which has complained repeatedly about the difficulty of *finding satisfactory sub-contractors* in Europe.

In the past few years, moreover, other US companies in a wide range of industries, particularly cars, engineering and electronics, have deserted their American suppliers for more competitive offshore sources.

However, the story is more complex. Many Western sub-contractors complain, in their defence, that Japanese companies fail to specify their requirements quickly or clearly enough.

In part, this may be due simply to poor communications and misunderstandings. However, there are also suspicions that some Japanese companies are deliberately going slow for internal reasons - a charge levelled privately against Komatsu in the UK. Komatsu denies this, but has admitted that its rapid expansion of production overseas faces resistance from its workforce at home.

Foreign manufacturing can also trigger other sectional conflicts behind the cohesive face which Japanese companies normally present to the world. Several companies concede that their design and production engineers, along with operational management, are determined to keep a tight grip on key decisions; persuading them to cede some of their authority to overseas subsidiaries can involve *fierce power struggles* which may only be settled by the intervention of top management.

Broadly speaking, Japanese companies' efforts to increase local procurement have followed *two paths. The first is to try to* develp with Western suppliers links as tight as with their suppliers at home.

This means not only giving them the assurance of long-term contractual relationships, but also supplying technical advice and involving them in future product development.

Honda, for example, says it is now satisfied with the steel delivered to its US plant in Marysville, Ohio, after working closely with American suppliers to improve quality and cost.

According to Mr Tetsuo Chino, head of Honda's American operations, achieving the required quality and cost has taken almost four years, during which both the specifications of the steel and the production methods were changed at Honda's insistence.

In the UK, Nissan aims to achieve 60 per cent local content by next year at its car plant in Washington. It is currently buying from 60 European suppliers and is involving them closely in the development of its new model to be made in Washington from 1990: as part of this exercise, employees from suppliers are being flown out to Japan.

"We are looking for new ways *to work with suppliers that are* neither European nor Japanese ways," says Mr Peter Hill, purchasing manager at Nissan UK.

In Europe, some Japanese companies have sub-contracted to local partners work which they do in-house in Japan.

For instance, Matsushita, Japan's biggest electronics company, has a technical collaboration agreement with West Germany's Grundig, which makes tape drives for video recorders assembled *in Europe* by the Japanese company.

Mr Koju Suzuki, Matsushita's managing director of overseas production, says his company's *own production technology is* more advanced than Grundig's. However, it would cost Matsushita more to make its own tape drives in Europe because the volumes required there are low.

The second approach is to rely on local production by transplanted Japanese suppliers. This trend has been most pronounced in the US, where more than 130 Japanese automotive components makers have decided in the past few years to set up plants.

Japanese motor manufacturers, all *of whom have decided to* establish North American production sites, say they have not actively pressed their suppliers to follow suit.

This is confirmed by Mr Walter Schill of McKinsey, the management consultants: he has found that most of the suppliers moved voluntarily because they feared that increased overseas production by their biggest customers would mean less business at home.

Where they did receive encouragement to move abroad, it often came from American vehicle makers.

Guy de Jonquieres
International Business Editor

Continued from page 3

Screw turn

increased local production by the Japanese could undermine European industry from within by exacerbating excess capacity and price competition.

The British Government's generous assistance for Nissan's assembly plant in Washington, northern England - the only Japanese assembly facility in Europe so far - has been strongly criticised by many European automotive companies, which have complained vocally to their national governments.

More generally, political pressure is also starting to build on Japanese manufacturers to transfer more research and development activities to Europe, though it remains to be seen whether the EC will attempt to require them formally to commit themselves to this objective.

Some companies have begun to do so voluntarily, notably Sony, which has set up a design and engineering centre in Stuttgart, West Germany. But according to the European Commission, they constitute a very small minority, and few *of* them are doing much more than adapting basic Japanese designs to European standards.

There are many in Europe, both in industry and government, who would like the Japanese to develop in the EC new products for the world market. That would conflict with most Japanese companies' determination to keep such activities at home. To decentralise them would, they argue, reduce their efficiency and competitiveness.

Guy de Jonquieres

Meeting rules

THE EUROPEAN Community's *controversial regulations* designed to check the spread of Japanese 'screwdriver' plants have sent many Japanese companies with facilities in Europe rushing *to raise* the *ratio of* local content in their production to levels acceptable to Brussels.

But judging by the ingenious solution being adopted by Matsushita, *it is* debatable how effective the regulations will be.

According to Mr Koju Suzuki, head of Matsushita's overseas production division, the company aims by the end of next year to raise to 40 per cent by value the proportion of local content in the electronic typewriters and plain paper *copiers made in Europe.*

The problem, however, is that many of the Japanese-designed components used in these products cannot be found in Europe. To replace *them with parts of* European origin would, according to Mr Suzuki, involve wholesale re-engineering of the typewriters and copiers.

So Matsushita has come up with a better idea - a crash programme to lower sharply overall costs by simplifying product design. "That way we can meet the 40 per cent local content target but still use few European components," says Mr Suzuki, with just a hint of satisfaction.

Unlike the US and the UK, de-industrialisation has not meant the loss of vital skills

Out of volume and into value added

THE JAPANESE like to do most things collectively, and one of their characteristic forms of group activity is worrying about the state of the nation.

Along with issues such as trade friction, the high yen and soaring land prices, one of this year's most popular worries has been about "hollowing out", also known as "de-industrialisation".

The syndrome is easier to describe than to define. It stems from an uneasy feeling that rising imports, the trend towards offshore manufacturing and fierce challenges from Asian newly industrialised countries (Nics) in third markets will conspire over the longer run to erode the country's industrial base and its industrial competitiveness.

To an outside observer, such anxieties appear for the most part premature, not to say overdone. That there have been violent upheavals in Japan's industrial economy in the past two years, some of which carry a sizeable social cost, is undeniable. However, many of them, far from intimating inexorable national decline, are associated with a far-reaching structural adjustment which promises over the longer term to enhance Japanese industry's competitiveness by re-directing resources into new areas which offer increased growth and profitability.

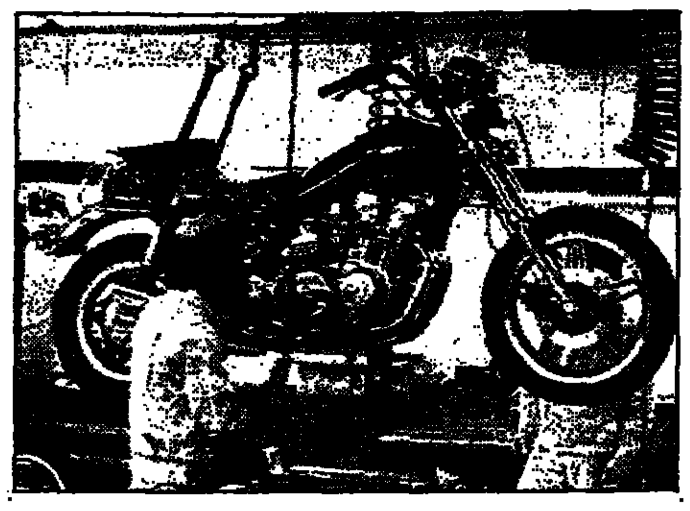
Though unemployment nationally has been declining since early summer, some types of jobs have disappeared as manufacturers have sought to compensate by reducing costs at home, shifting to cheaper sources of supply overseas or axing weak activities.

While many manufacturers have responded by attempting energetically to diversify into new businesses, there is a limit to the number of displaced workers which such measures can absorb. In declining sectors such as steel, some producers have been obliged to resort to large-scale redundancies. The cuts have fallen disproportionately hard on the Kansai, the western part of Japan, which is also suffering from the effects of relocation by some of its more successful businesses to the Tokyo area.

However, while the weaker may be feeling the pinch, the overwhelming impression is that the stronger are getting stronger still. By striking a tougher bargain with their suppliers, trimming waste and striving for still higher levels of production efficiency, many successful companies have managed to claw back a significant part of the competitive edge lost due to the higher yen.

Indeed, the strong yen has brought a sizeable windfall in the form of cheaper raw materials and energy costs. Honda, for instance, says that lower import prices offset half the effects of currency appreciation on its export receipts. Furthermore, while the impact on the latter is immediate, much of the benefit of cheaper imports takes time to work its way through.

A potentially more serious source of concern in the longer run is the consequences of direct investment in production facilities overseas. So far, only a tiny proportion of Japanese industrial production is carried out abroad. According to the Japan External Trade Organisation (Jetro), it amounted to less than four per cent in 1983 (it is thought to be nearer six per cent today). The proportion for US industry that year was 17.3 per cent, and for West German industry 19.3 per cent.



Honda says low import prices help offset currency appreciation

However, the trend is accelerating fast. Furthermore, unlike US and European companies, which became multinational earlier this century largely in order to expand into closed foreign markets, thereby increasing their total sales, Japanese manufacturers' strategies are heavily dictated by the need to substitute overseas production for existing exports. Some economists estimate that every dollar of output abroad cuts Japan's exports by 30 cents.

Hence, there is a risk that some hollowing out of their domestic operations may occur. To date, however, this has been decidedly limited. According to an official of the Ministry of Trade and Industry : "As far as we know, there have been very few cases of factories being closed because production has been moved offshore."

It may be that some manufacturers have failed so far to anticipate the effect on domestic production of the fall in exports due to manufacturing overseas. But it is equally likely that any loss of exports has been offset by booming demand on the home market. In addition, some types of direct investment can keep factories turning at home, at least temporarily. For instance, Toyota has sharply increased exports of knock-down car kits from Japan to supply Nummi, the US assembly plant which it operates jointly with General Motors.

Eventually, however, the consequences for the domestic economy of export-substituting direct investment and increased outsourcing will have to be faced. The solution on which many Japanese companies are pinning their hopes is to shift their domestic operations away from activities in which price is the key to competitiveness and into those where the decisive element is value-added.

This process is already under way. For instance, monochrome televisions are no longer made in Japan while manufacture of some simpler videorecorder models has been moved to low-cost offshore sites. Matsushita now makes all its air-conditioning units in Malaysia, while Sumitomo Electric has stopped exporting about 10 per cent of its product range in the past two years, dropping basic items such as standard power lines and paper-insulated copper cables. Furthermore, Hong Kong recently overtook Japan as the world's biggest maker of digital watches.

Simultaneously, a concerted effort is being made to develop new and more sophisticated products which will command premium prices. For instance :

□ Most of the main car makers have launched or plan to launch higher-priced luxury and sporting models. Honda says it aims eventually to devote most of its domestic production capacity to top-of-the-range cars, and to produce most of its cheaper models in the US.

□ The share of high-quality and special steels in Japan's total output rose to 31.1 per cent last year from 24 per cent in 1980 and 18 per cent in 1975.

□ All the country's leading consumer electronics manufacturers are diversifying rapidly into professional, industrial and office equipment, which they expect to contribute an increasing share of their total future sales.

□ Toray, a leading textiles and fibres maker, expects sales of these traditional products to slip from two thirds of its total business to less than half in the next three years. It is looking for most of its growth to newer activities including polypropylene film, plastics, chemicals and carbon fibre.

Thus the image of Japan as predominantly a volume producer of low-cost items for mass consumer markets is changing. The long-term direction is to develop away from an export base concentrated in a relatively few sectors into a much wider range of differentiated market niches.

Will the strategy succeed? Japanese companies have already demonstrated a remarkable ability to diversify successfully. Unlike western firms, which often diversify through acquisition, the Japanese tend to seek new applications for their existing skills, moving outwards from proven strengths rather than leaping boldly into new and unfamiliar territory.

It is quite clear that de-industrialisation is not being accompanied in Japan by the loss of vital skills which has characterised the decline of manufacturing in the US and Britain. On the contrary, many Japanese companies are committed to ensuring that their most valuable know-how remains in Japan and are stepping up their research and development efforts accordingly.

The most critical question mark would seem to be over the extent to which the new businesses can fill the gap left by the traditional operations which are being closed down or phased out. The course on which Japanese industry has embarked carries risks: it will inevitably mean greater exposure to uncharted new markets and higher development costs. The penalties of failure will thus be greatly increased.

Guy de Jonquieres

Multinational management

Catching up the world

DURING THE PAST decade, Japanese manufacturing industry can justifiably claim to have revolutionised many of the precepts and techniques of good management worldwide.

Its widely admired manufacturing methods have been applied not only in its own companies' overseas plants but also by many western competitors, who have enthusiastically embraced concepts such as quality circles and "just-in-time" production scheduling.

However, as Japanese industry moves rapidly to expand the size and range of its international operations, it is being obliged to confront a complex array of fresh challenges, many of which do not accommodate themselves easily with the Japanese way of doing things. Indeed, some of the same characteristics of management style and corporate structure which have contributed to Japan's success as an exporter may turn out to be disadvantages in running multinational enterprises.

Mr Kenichi Ohmae, head of the Japanese operations of management consultants, McKinsey, insists that Japanese companies have a lot to learn about functioning in a cosmopolitan business environment. He reckons that they are 10 to 15 years behind American and European companies in understanding how to operate on a multinational basis.

The cultural gap is compounded by operating at long distance

Professor James Abegglen, a Tokyo-based business consultant, points out that many Japanese companies have proven adept at running overseas plants where the could impose their own production and personnel methods on a cooperative local labour force.

"But I have the sense that what the Japanese have not figured out at all is how to handle relations with white-collar and managerial staff overseas. It's a terrible problem for them, because here they have been used to working in a closely integrated society with people who have known each other from their schooldays, and with whom they can communicate almost by a wink," he says.

Many Japanese managers concede that this is a challenge of which they are acutely aware. Even Honda, which has had ambitions to go global almost since it was founded, says that coping with it will take time. "You can localise production quite quickly, but you can't localise management overnight," says Mr Tetsuo Chino, head of the company's North American division.

In fact, the problem breaks down into two components. One is learning to deal with foreigners within and outside the company. The other is devising internal systems which ensure a sensible degree of decentralisation and effective coordination between overseas operations and corporate headquarters.

As any westerner who has spent time in a Japanese company will testify, decision-making and communications are carried on in an apparently unstructured collective fashion without explicit rules and procedures. Though the system obviously works brilliantly well for the Japanese, it can lead to misunderstandings and downright mystification among foreign executives accustomed to a more formalised, hierarchical approach and a clear operating remit.

Furthermore, though many Japanese businessmen are intimately conversant with the workings of foreign markets, relatively few have much experience of dealing directly with foreigners. "When they go on business trips abroad, they are whisked off by other Japanese to stay in Japanese hotels and shop in Japanese shops," says one western businessman in Tokyo. "They are cushioned from the outside world."

This cultural gap is compounded by difficulties of operating at long-distance. As Mr Naohiro Amaya, a former vice minister of International Trade and Industry, points out : "A characteristic of Japanese management style is close contact."

Some Japanese executives overseas go to extraordinary lengths to try to maintain these links, consulting head office on even quite trivial decisions. "Our foreign subsidiaries are always looking too much to Tokyo," says Mr Shinichi Yufu, executive vice president of Mitsubishi Electric. "They are always asking for directions."

Choosing the right type of manager - and management structure - to run local subsidiaries is a common dilemma for many multinational companies. But it seems a bigger problem for Japanese companies than most. A number have oscillated alternately between appointing a trusted Japanese executive and a foreigner familiar with local market conditions.

A particular drawback is the low esteem in which even Japanese nationals working abroad have traditionally been held at home. "There is a tendency for the really capable people to stay in Japan," says Mr Amaya, because a foreign posting has rarely been seen as a route to the top. Equally important, perhaps, is the difficulty of taking children out of the immensely competitive Japanese school system. The unpalatable choice often lies between jeopardising their educational prospects or leaving the family back home.

Some of these traditional attitudes and behaviour patterns are starting change. A growing number of high-flying younger managers is attending western business schools, particularly in the US. Moreover, as Japanese industry looks to offshore operations for an increasing share of its future growth, some of the stigma attached to working abroad is beginning to fade. Mr Yufu of Mitsubishi Electric says that the company now sends 300-400 managers overseas every year, compared with only three or four a decade or so ago.

Since the mid-1970s, Sony has held quarterly meetings between its top Japanese and American managers which, it says, has greatly increased mutual understanding and communications. "We Japanese have been changed in the process," says Mr Ken Iwaki, the company's head of planning. "We have now adopted practices such as clear presentations, budgets and organised debate about strategy which are not features of Japanese management style."

Nonetheless, big Japanese companies often still list a shortage of internationally-minded staff as one of the biggest constraints to overseas expansion and say that they need to do more to train staff. NEC, the electronics group, for example, recently set up a separate division to handle international personnel and also invites its foreign managers to spend two years working in its Japanese operations.

McKinsey, the management consultants, has also set up a nine-week intensive course, during which Japanese corporate executives are taught how to operate internationally. The programme includes spells in the US and western Europe, during which participants are set practical tests such as establishing a limited company, formulating a business plan and negotiating a loan with a foreign commercial bank.

One problem which companies face is that able managers familiar with both western and Japanese business practices are an immensely valuable commodity. With head-hunting starting to catch on fast in Japan, poaching of internationally trained executives is on the increase, both by Japanese companies which are expanding overseas and by foreign firms wanting to do business in Japan.

However, few companies outside the ranks of the industry leaders can afford the expense of systematic training schemes. For many smaller firms, impelled to move offshore by the high yen, or because their major domestic customers have set up overseas, it is often a question of muddling through as best they can; either by engaging local staff, or by expecting their own managers to learn on the job.

Guy de Jonquieres

Rise of yen and falling exports are causing carmakers to think big

Driving into the luxury market

JAPAN'S CAR makers are beginning to attack the luxury market in a move which could have far-reaching consequences for the automobile industry at home and abroad.

It a sign both of the confidence Japanese manufacturers feel in their technology and design skills, and of their need to reduce their reliance on small models, which producers in developing countries, including South Korea, will be making in increasing numbers.

The move upmarket could play a crucial role in raising Japanese makers profits which have been squeezed in the last two years by the appreciation of the yen. Exports, the engine of growth in the early 1980s, fell by 7.4 per cent in the six months to September.

Competition at home has intensified as Toyota and Nissan, the two largest manufacturers, have redirected their energies towards the domestic market. Boosted by government efforts to stimulate the economy, car sales are currently growing at a rate of 3.5 per cent a year.

That may not be enough in the long run to support the nine domestic car manufacturers, which range from Toyota, producing 3.66m passenger and commercial vehicles a year, to Isuzu with just 555,000. The move upmarket could well increase the pressure on the smaller makers given the extra costs of making and marketing luxury.

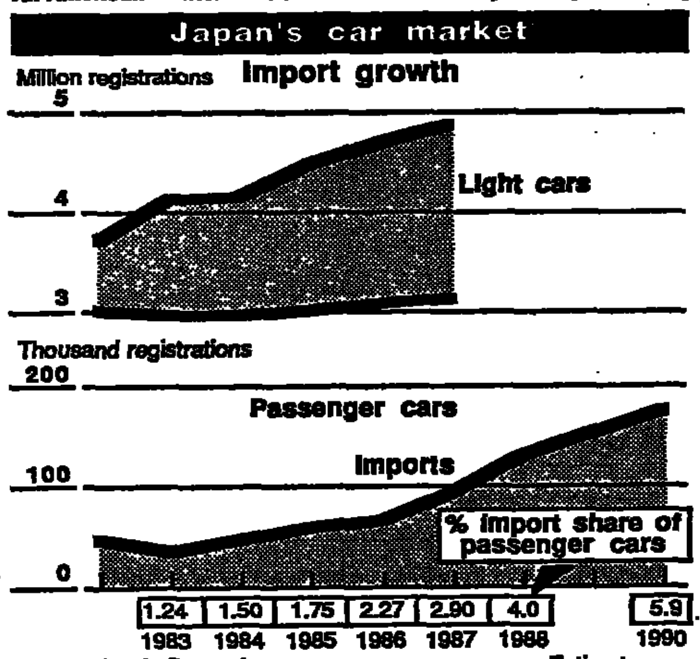
But for those who succeed, the rewards could be enormous. Firstly, the margins on luxury cars are generally larger so successful manufacturers can expect to see profits grow faster than the modest increases which can be forecast for domestic unit sales.

Secondly, there is the overseas market. The rise of the yen has staunched the growth of export sales so effectively that Japanese makers cannot even fulfil the export quotas imposed by the US Government in a bid to protect Detriot.

But the higher margins on luxury cars should give Japanese manufacturers a fresh incentive to sell abroad. At the Tokyo Motor Show last month leading makers insisted that the new upmarket cars on display were for the home market. But large-scale exports cannot be more than two years away.

Toyota, Nissan, and Honda are establishing dealer networks for luxury cars in the US. Honda, which has stolen a march on its rivals in the move upmarket, is already taking some 10 per cent of the market for higher-priced cars with its Acura and Legend models.

An American worker learns about car assembly the Japanese way



Source: Austin Rover Japan

None of this means that the Japanese makers are abandoning the cheaper-priced ranges, only that their room for growth in those markets is more limited.

Nevertheless, to counteract the effect of the strong yen, they are continuing to invest abroad - both in industrialised countries, to be close to their main markets and to avoid trade friction, and in developing countries, to take advantange of cheaper labour costs.

For example, in the last few weeks, Toyota has announced plans to build a $300m engine and transmission factory next to the $800m assembly plant it is already building in the US. It has also disclosed plans for a $75m engine plant in Indonesia, which will produce 72, 000 commercial vehicles.

Half the output will be exported to Japan - a telling comment on Toyota's view of the outlook for domestic production costs.

But Honda is the company which has committed the biggest resources to overseas production, chiefly in the US. It intends to build 510,000 vehicles a year in the US by 1991 and export 70, 000 of them, many to Japan. By comparison Toyota's plant in Kentucky will be making some 200,000 a year in the US, whereas it currently sells about 900,000 a year in America.

Japanese manufacturers are also cooperating with other manufacturers in their efforts to internationalise. Toyota has a long-standing joint venture with General Motors, the biggest US producer, to operate a 250, 000-vehicle-a-year plant at Fremont, California. Nissan is planning joint ventures with Ford to build multi-purpose leisure/commercial vehicles in US and Spain.

But there are limits to the degree of expansion which can be achieved in this way. In North America, for example, industry executives are concerned that new plants currently under construction by Japanese markers could lead to over-capacity in the 1990s. For this reason, Ford last month asked Nissan to cut the planned size of their North American joint venture from 200,000 to 100,000 vehicles a year.

At home too, the over-crowded Japanese industry will be hit by any downturn in demand.

Toyota earlier this year calculated that a 10 per cent fall in domestic output could mean the loss of 420,000 jobs in the industry. The Japan Automobile Manufacturers Association says the industry employs some 5.25m workers, or 10 per cent of the total Japanese labour force.

No-one believes the closure of a large plant is even being contemplated. But recruitment has slowed. And the industry is redoubling its efforts to diversify.

Stefan Wagstyl

Imported cars

Affluence aids a long overdue expansion

NOT VERY LONG ago, an imported car in Japan caused a great deal of comment. Its huge size and high cost, most Japanese thought, meant that the car's owner had to be a member of Japan's underworld.

Today, Japan's gangsters are no longer alone in buying imported cars. Thanks to the increasing affluence of the Japanese, improved marketing efforts by foreign car makers, and the loosening of import restrictions, imported cars are finally making headway in Japan.

As a percentage of the world's second largest motor vehicle market, imports in Japan are still tiny when compared to import penetration in the US or Europe. This year, imports should aproach 3 per cent of the total. But this is twice their penetration four years ago. By 1990, industry analysts expect imported cars to reach 5 per cent of the market and as much as 10 per cent by 1995.

While foreigners might view this as a long overdue development, for the Japanese, it is something of a shock. The Japanese motor industry has long been a symbol of Japan's extraordinary growth since the war. For decades, it would have been unpatriotic to consider buying a foreign car, even if one could afford it.

Today, however, those feelings are starting to fade, particularly with Japan's affluent younger generation, the "shinginrui", loosely translated as new mankind. These young people are unashamed of driving a BMW. In fact, European cars in particular have become something of a status symbol among this group.

"We're facing a turning point in the Japanese motor industry," said Mr Takanori Iida, marketing manager of Jaguar Japan, a subsidiary of the UK luxury car group. "Importers are now making real advances. Five years ago, no one could have imagined this would happen in Japan."

At the same time as attitudes began to change, a number of other important factors came into play. First, the appreciated yen made the business of selling imported cars more profitable for the foreign companies. Second, in 1985, the government lifted most of the more onerous restrictions on importing cars into Japan. Perhaps most importantly, however, automakers realised that they had to shift from the low volume, high margin business of selling through agents and set up their own dealership networks.

The first company to take charge of its own dealership network was BMW of West Germany. It expanded its network, sharply reduced financing charges, launched a national ad campaign and watched its sales soar. From just under 10,000 units in 1985, it will sell 20,000 units this year and 30,000 units in 1990.

A somewhat similar story is emerging with Austin Rover, the UK car group. From around 2,000 units a year in 1985, the company expects sales of 10,000 units next year and at least 30,000 units by 1992. Unlike BMW, Austin Rover is also selling cars at the low to medium price level, in direct competition with middle range Japanese cars.

The crucial test for foreign car companies is whether they can move into volume sales without offering all the trimmings provided by domestic car groups

This kind of success is feeding on itself, with foreign automakers announcing expansion plans almost monthly in Japan. In mid-November, for example, General Motors signed a marketing deal with Suzuki to sell its cars through the Japanese company's dealer network. This deal followed October's news that Mitsubishi Motors had agreed to sell the complete range of Daimler-Benz vehicles through its sales networks.

This kind of activity has cut deeply into the once-supreme agency business of selling cars. Indeed, when Japan's biggest car agency, Yanase, lost the Daimler-Benz account, the company's founder came out of semi-retirement to remove his son-in-law from the president's seat.

"The days of selling a (foreign) car and then playing a round of golf are over," says Mr David Blume, marketing manager of Austin Rover Japan. "The low volume, high profit game is just about finished."

Indeed, with the imported market growing at about 40 per cent a year against 2 per cent growth for the market overall, the Japanese automakers are busily upgrading their cars to compete. So far, their efforts are not causing the foreigners in Japan to lose any sleep.

"We know they want to move into our sector, but it will take two or three car generations," to do it, says Mr Luder Paysan, president of BMW Japan. "We're not just selling a car, we're selling a lifestyle concept."

The crucial test ahead of the foreign car companies in Japan is whether they can move into the kind of extraordinary customer service offered by Japanese car companies. This kind of service, which ranges from sending birthday cards to sorting out insurance problems, amounts to two to three times the level of attention customers receive in the US and Europe.

Foreign auto executives, however, view the system as a vastly inefficient one which will gradually decline as domestic automakers are forced to reduce their costs. Austin Rover Japan, for example, says that much of this work can be taken on by the head office staff, not the individual car salesmen.

"Our saleman can offer the same services without wearing out shoe leather," says Mr Blume, in reference to the practice of door-to-door selling undertaken by Japanese motor companies. Productivity of Japanese salesmen, he points out, is very low at about 40 cars a year. Further, he argues, when a salesman for Toyota or Nissan dies or retires, his customers are lost with him.

The future for foreign automakers in Japan, it seems, will depend on their ability to provide Japanese-style service with Western efficiency.

Carla Rapoport

JAPANESE INDUSTRY 7

The Shibuya shopping district in Tokyo

Retailing

The consumer society

Leading Japanese retailers

Sales & Profits for Six Months ended 9/87
Ybn (percentage changes)

Dept stores	Sales (Ybn)	Pre-tax profit	Net profit
Mitsukoshi	306.2 (+6.1)	2.8 (+10.3)	1.4 (+25.4)
Takashimaya	264.8 (+5.4)	7.2 (+24.1)	1.9 (−32.2)
Daimaru	250.3 (−1.5)	1.4 (−1.5)	1.0 (+5.3)
Matsuzakaya	185.1 (+2.6)	3.7 (+6.7)	1.8 (+7.5)
Sogo	116.8 (+3.7)	3.3 (+10.9)	1.7 (+19.7)
Supermarkets			
Daiei	754.3 (+6.3)	9.6 (+9.3)	3.3 (+6.7)
Ito-Yokado	508.8 (+5.0)	29.2 (+19.5)	14.8 (+20.5)
Seiyu	424.4 (+5.6)	4.8 (+7.7)	2.2 (+10.2)
Jusco	381.7 (+3.9)	10.3 (+8.3)	5.0 (+7.5)
Nichii	278.1 (−0.2)	8.1 (+7.8)	4.7 (+15.9)
Uny	218.8 (+4.4)	7.3 (+4.2)	4.2 (+11.5)

THESE ARE golden days for Japan's retailers. Consumer spending is on the rise, imported goods are becoming cheaper, and government restrictions on shop location and hours look like easing.

The result is that Japan's retailers are not only becoming bigger, they are becoming more profitable. And with their higher profitability, retailers are becoming more important within Japan's industrial structure.

Indeed, retailers are in the vanguard of Japan's current shift from an export-led economy to one with more domestic vigour.

Spurred by the Government's pump-priming measures of increased public spending, tax cuts and interest rate reductions, consumer spending in Japan has been rising rapidly. Economists now expect consumer spending to grow by 8 or 9 per cent next year.

Young adults are spending more, saving less and using credit more freely

Housing starts were running 27 per cent higher in the third quarter of the current year and now exceed the US rate, according to the Bank of Japan. At the same time, retailers are benefiting from a change in spending patterns.

Japan has always been a nation which valued saving over spending. Slowly, especially with younger people, that tradition is breaking down. Japan's young adults are spending more, saving less, and using credit much more freely than their parents.

"Over the last few years, our society has been maturing. I can feel it. We are becoming much closer to that of England or the US," says Mr Masatoshi Ito, president of Ito-Yokado, one of Japan's leading retailers.

Marui, the store group which caters to young consumers, reports sales up 10 per cent annually over the last three years, which is about double the national average. "These young people don't save. They would like to spend and enjoy the money they get," says Mr Fumihiko Sato, an executive with Marui in Tokyo.

All this has combined to boost sales and profits markedly for nearly all the big retailers in Japan. Ito-Yokado, for example, whose operations include supermarkets, department stores, and 24-hour convenience stores, has boosted sales by more than 20 per cent in the last two years, to about $9.5bn, while profits surged by 40 per cent. Marui has seen sales climb by a third in the past two years while pre-tax profits have nearly doubled.

Indeed, in the six months ended last September, Japan's five leading department stores increased pre-tax profits by an average of 10 per cent, while the six top supermarkets pushed profits ahead by 9.5 per cent on average.

This growth in retailing, combined with the stronger value of the yen, has been having a good effect on imports. According to government figures, Japan's retailers boosted their imports by about 20 per cent over the last two years to more than Y1,000bn this year.

However, the figure still represents less than 1 per cent of the retail industry's annual sales. For a variety of reasons, leaders in the retail industry remain pessimistic about imports making further substantial progress in the consumer durables market.

Part of the problem is the country's notoriously inefficient distribution system. At the same time, however, Japanese retailers are still complaining that they cannot find enough that they want to buy from foreign manufacturers.

Marui, for example, claims that about 10 per cent of its goods are imported, a percentage which it says should increase gradually. This figure, however, almost certainly includes foreign products made under licence in Japan.

"Japanese companies are thinking about increasing (direct) imports. But as a matter of fact, there aren't really things we want overseas," says Mr Sato of Marui.

He says that he led a Japanese retailers' buying mission which went to New York as part of the Government's efforts to boost imports. "We were eager to buy, but we couldn't fill one quarter of our target.

"The level of Japanese consumers is very high. Young people here care about standards...I'm not optimistic about volume increases in imports being achieved," he says.

Mr Ito, currently managing director of the Japan Chain Stores Association and vice-chairman of Japan Retailers Association, echoes his sentiments. He says that Ito-Yokado's imports are increasing by 20 per cent this year in terms of value, but most of these goods are coming from South-East Asian countries where labour costs are low.

"From Europe, frankly we can make more money licensing products and making them in Asian countries than we can by importing them," Mr Ito says.

The large retailers, however, also say that the country's complicated distribution system works against imports because handling and delivery costs are so high. Indeed, the industry's inefficent structure works against the Japanese consumer as well, making the cost of all goods higher than those found abroad.

But there are signs that the system, finally, is changing. "The elites of Japanese bureaucracy have determined that retailing and distribution must now assume the role in Japan's economy that was once assigned to manufacturers: namely, leadership," says Mr Mike Allen, retail analyst for Barclays de Zoete Wedd in Tokyo. The Government, he argues, is planning to scrap legislation which protects the small retailers at the expense of the larger ones.

Analysts also predict that government will deregulate business hours, further strengthening the hand of larger retailers.

These moves will help the larger retailers to reduce their costs, streamline distribution, boost imports and pass on the savings to consumers. The shift will take some time, however, as small retailers still well outweigh the big. Japan's Mom and Pop stores - outlets with one to four employees and less than Y100m in sales - account for more than 80 per cent of total retail outlets in the country and 35 per cent of total retail sales.

None the less, their numbers are decreasing as are the numbers of small shops affiliated to Japan's big manufacturers. These shops were set up by the home electronics companies more than 30 years ago, before the country's modern retail network was established.

Until recently, they accounted for two-thirds to four-fifths of the total domestic sales of the big electronics companies. The independent chain stores have been rapidly changing this balance through the benefits of lower overheads and a larger choice of merchandise.

They also offer a growing selection of electronics from Korea and Taiwan, which are making big inroads into the low-value segment of the consumer electronics market.

As a result, the big manufacturers can no longer afford to favour their affiliated shops and must work with the independents.

All this activity will no doubt ensure that Japanese retailing will remain one of the most dynamic sectors within Japanese industry for some time to come.

Carla Rapoport

The country's distribution system is antiquated

A wholesale jobs agency

THE JAPANESE are on a buying spree around the world these days. The soaring yen has transformed the world's marketplace into a bargain hunter's paradise. Japanese are suddenly buying Oriental carpets, *art nouveau* glass, Van Gogh paintings and cameo jewellery.

Half the fur coats sold this year will be sold in Japan, a country whose temperature rarely dips to freezing and whose cold season lasts only two months. The growing wealth and sophistication of the Japanese consumer are also forcing some changes in the notoriously stodgy Japanese marketplace.

Shoppers are bypassing traditional retail outlets to discover the more esoteric joys of direct mail, foreign catalogues and satellite shopping. Fuji Television, for example, now produces a monthly show by satellite hook-up which has sold everything from Madonna-style leopard loveseats to castles in France.

Yet for all the interest in buying foreign goods, and the new power of the yen, imports have risen only moderately. The Japanese distribution system is commonly presumed to be the culprit.

Foreign companies often refer to it as the "most significant non-tariff trade barrier," for it discourages entry into the market or hope for serious profits. The distribution system is an antiquated, but still powerful, behemoth which provides extraordinary service to retailers at extraordinary cost.

Japan has the highest ratio of wholesalers to retailers in the world. One recent study put it at 5:22, more than three times higher than the US, UK, France or Germany. Japan has, in fact, the same number of wholesalers as the US, with only half the population, and only 10 per cent fewer retailers.

Many of those wholesalers still operate on a person-to-person basis. Every day thousands upon thousands of agents travel through crowded city streets to take orders and supply retailers, 57 per cent of whom are family businesses. They also return unused goods to a stockpiler who shares the risk with the manufacturer for unsold items.

The whole system operates heavily on credit and a rather quaint ethic: a strong sense of loyalty in exchange for years of service keeps retailers locked to the same suppliers no matter how anti-competitive the prices.

The system has been perpetuated by Japan's under-developed road network and its high land prices which means that the superstore or American-style shopping mall could not properly develop on Japanese soil. Even if a driver could make it to a discount store, there would probably be no place to park. As a result, retailing and wholesaling have remained highly fragmented.

But the Government has been loth to take on the distribution industry directly, for the system acts as a kind of national employment agency for the country. A significant percentage of the nearly 11m people who work in the industry (18.6 per cent of the entire working population) are retired workers who need more than their company's pension and the Government's meagre social security benefits to survive.

Though foreigners are the most outspoken critics of the distribution system, the immediate victims are Japanese consumers

The system also seems to soak up whatever surplus is generated elsewhere in the economy: when 90,000 manufacturing jobs were cut last year, the distribution industry showed an increase of 210,000 workers. In some industries the Government's complicity in the status quo is more active.

In the case of the beef industry, for instance, the Government has sanctioned a near-monopoly in the distribution system. All beef is expensive, no matter the grade or cut. Prices have little to do with production costs or supply and demand.

Beef growers are a powerful political lobby in Japan who have caused the Liberal Democratic Party to be dubbed "the livestock clan." The extra-governmental agency which controls the beef market, the Livestock Industry Promotion Corp. (LIPC), buys virtually all the beef which the country imports (about 30 per cent of all consumed) and has profited substantially from the yen's performance in the last two years: LIPC profits jumped in fiscal 1985 from an annual level of between $130m to $200m to $257.3m and in 1986 to $333.3m. But the profits have not filtered down to the consumer: imported beef is essentially no cheaper than domestic.

Though foreigners are the most outspoken critics of Japan's distribution system, the immediate victims are the Japanese consumers, who are not being permitted to share in much of the enormous wealth Japan is currently enjoying. The mark up on domestic goods can be as onerous as that on foreign goods: a JVC movie recorder that could be bought for $898 in New York this year sells for $2,211 in Japan; a Sony CD player that went for $179 in New York cost $410 in Tokyo; a Casio Calculator went for $6 in Hong Kong and $41 in Japan. As one foreign observer put it, "Everything is a luxury item in this country."

So far, consumers have proven to be surprisingly docile about the discrepancies. Indeed, small retailers have always exerted considerable political power in Japan because the neighbourhood economy meant they dominated the marketplace. But they are slowly losing ground to the larger retail stores which can offer more competitive prices.

In the early 1970s, when large retail stores first began to threaten small operators, the Government enacted what is known as the Law of Large-Scale Retail Stores - which requires any prospective retail outlet over a certain size to obtain approval from a majority of neighbourhood businesses and then approval from the Government before beginning construction. In practice, this means a waiting period of two to five years before construction can begin, if at all.

The Law of Large-Scale Retail Stores is currently on the agenda of trade talks between Japan and its trading partners, since most imports are still carried in the large retail outlets and since it is the only legal impediment to imports in the distribution system. Large retailers are also seeking their own solutions to bypass the cumbersome distribution system and take advantage of the high yen.

Supermarkets are beginning to manufacture their own label products and absorb the added risk, as well as profit. Both wholesalers and retailers are procuring more goods abroad directly and starting new businesses abroad: Japanese department stores are cropping up all over Asia.

New ventures like direct marketing account for only a dent in the market so far (less than 1 per cent of all retail sales last year) but projections to the year 2000 see a growth to 3 per cent, according to Marplan Japan, a marketing research company.

The adventurous consumer remains the key player in the marketplace and if he/she continues in the mood to buy, the market will surely find a way to manufacture new fantasies.

Christine Doudna

Revised tendering procedures have failed to end a protracted dispute over foreign access to the Japanese civil engineering market

Foreign constructors kept at bay

THE CONSTRUCTION industry is at the centre of one of the most intractable trade disputes raging between Japan and the West - the issue of access for foreign companies to the domestic market.

The dispute appeared to have been settled after Japan reached agreement with the US Government - its main critic - to revise tendering procedures for the Y1,000bn ($7.4bn) first phase of the Kansai airport project.

Foreign hopes that the Government's flexibility over the airport project signalled an increased willingness to dismantle the bureaucratic obstacles to competition were short-lived, however.

Only weeks after the agreement on Kansai, the Government made clear that it had no intention of picking a fight with the powerful domestic construction companies by dismantling the bureaucratic controls which protect them from overseas competition.

The issue is certain to remain an area of fierce disagreement between Japan and its partners in the Organisation for Economic Cooperation and Development, for two reasons.

First, there is increasing unease, particularly in the US, about the number and value of contracts being won by Japanese companies operating overseas, especially where these contracts are awarded by public authorities.

Second, the domestic construction market in Japan is about to undergo a period of rapid expansion, partly as a result of a big increase in public sector spending, and foreign construction companies are eager for a piece of the action.

There is little hope that the Japanese construction companies will give up their protected market without a fight, however. The industry shows every sign of continuing to maintain publicly that no trade barriers exist, with the private fallback position that if any do, they are necessary to ensure value for money for the taxpayer.

According to Nikkenren, the Japanese Federation of Construction Contractors, which represents the 51 biggest companies, total spending on construction rose by 18 per cent in the first half of 1987 compared with the same period last year. More than 80 per cent of the increase was in civil engineering projects.

Top Japanese contractors US$millions

	1986 contracts Foreign	1986 contracts Domestic	1986 contracts Total	% increase Foreign contracts 1986	Foreign contracts as % Total contracts 1986
Kumagai Gumi	1,909.1	4,564.2	6,473.3	−12.3	29.5
Mitsubishi Heavy Ind.	1,010.0	4,790.0	5,800.0	−29.1	17.4
Shimizu Contr	761.4	6,368.0	7,129.4	+25.8	10.7
JGC Corp.	748.0	339.0	1,087.0	−26.7	68.8
Toyo Eng. Corp.	594.3	50.0	644.3	+88.6	92.2
Chiyoda Chem. Eng. Co.	586.2	553.9	1,140.1	−26.8	51.4
Kajima Corp.	575.7	5,422.6	5,998.3	−8.3	9.6
Takenaka Komuten	475.0	5,318.1	5,793.1	+151.3	8.2
Taisei Corp.	349.6	6,516.2	6,865.8	+31.2	5.1
Hazama—Gumi	333.5	2,786.0	3,119.5	−33.3	10.7
Nippon Kokan KK	280.0	840.0	1,120.0	+216.0	25.0
Ohbayashi Corp.	278.7	5,189.9	5,468.6	−26.2	5.1
Nishimatsu Const.	229.5	2,241.2	2,470.7	+1.6	9.3
JDC Corp.	187.1	1,044.1	1,231.2	+0.6	15.2
Kobe Steel—Eng.	159.2	123.2	282.4	−54.9	56.4

Source of contracts: Engineering News—Record.

The federation says public spending on construction projects is likely to be up about 10 per cent over the year as a whole, and forecasts an increase of 20 per cent next year when the government programme begins to pick up speed.

The airport is the biggest of a number of projects intended to revitalise the Kansai region, particularly around Osaka, Japan's second city, and once its industrial powerhouse.

Work on the first phase started in January 1987, and is scheduled to be completed in the spring of 1993. The plan is to turn 1,200 hectares of Osaka Bay into an international airport on the scale of London's Heathrow Airport.

In addition to civil engineering work on the creation of three runways and associated terminal buildings, the project also includes a combined highway and railway bridge connecting the airport with the Kinki superhighway, some five kilometres away across the bay.

Foreign complaints about the project centre on the system of designated bidders, under which the contracting agency invites qualified companies to submit construction proposals, and then draws up a list of those which will be invited to tender.

The principal problem with this system is that no construction company can operate in Japan without a licence from the Ministry of Construction, and until September, when an application from Bechtel of the US was approved with what some regarded as indecent haste, no foreign company held such a licence. As a result, none was able to bid for Kansai contracts.

Heavy pressure from the Reagan Administration, combined with increasing "Japan bashing" in Congress, persuaded the Government to do a deal under which foreign companies are able to bid for contracts as consultants to the project.

There is a snag, however: the Kansai project is technically a private sector undertaking, even though it is largely publicly funded, because the contracts are awarded by a limited company set up by the Government.

As a result, the Government has said that the limited concession on consultancy contracts will apply in future only to private sector projects.

This is despite an apparent undertaking by Mr Yasuhiro Nakasone, the former Prime Minister, that the Kansai settlement would be a model for other large public works projects.

Mr William Verity, the US Commerce Secretary, took up the issue last month in negotiations in Tokyo with Mr Noburo Takeshita, the current Prime Minister, but a settlement of the row appears some way off.

The principal problem facing the US negotiators is that the Japanese are unwilling to admit that barriers to foreign companies exist.

Mr Toneri Inouye, head of the international affairs office of Nikkenren, says: "Everyone from Nakasone down has been saying that Japan will not discriminate between foreign and domestic companies."

All the Government wants, he says, is for foreign competitors to follow Japanese customs and laws, and that means registering and obtaining a permit, as Bechtel has done.

Mr Inouye concedes that this is not easy. Bechtel, for instance, had to produce translated copies of contracts relating to construction projects all over the world before it was given a permit.

The Construction Ministry also looks very closely at staff numbers and qualifications. This is done because Japan cannot afford to have mistakes made on major projects by companies which do not understand local business practice, he says.

As an example, he instances the expressway between Tokyo and Nagoya, built 30 years ago with help from the World Bank. Bidding was open to foreign contractors, and the successful companies included one from the US.

"When the project was 50 per cent complete, the US contractor decided to go home, so the remainder of the project was completed by Japanese companies. The problem was that the US company did not know how to use Japanese sub-contractors," he says.

"This is just one example, but that is why the Japanese Government is very strict about how many engineers you have and what record you have. They do not want people leaving when a project is half done."

Mr Inouye says Japan's overseas construction business took 20 years to develop, and is only now beginning to win contracts other than those awarded by Japanese companies setting up overseas plants or offices.

Japanese companies use local people overseas, and all their sub-contractors are local firms. They have had to become aware of languages, contracts, claims procedures and legal pitfalls, he says.

"The Japanese construction companies have paid expensively to learn how to do business overseas, and they have paid over a very long period of time.

The view that foreign companies are trying to penetrate the Japanese market in pursuit of short-term profits, without learning the ropes, is widespread in the local construction industry.

Mr Haruhisa Taniguchi, corporate planning manager at Ohbayashi Corporation, maintains: "Foreigners think they can come to Japan and make profits straight away. But the Japanese have a different approach to doing business.

"Construction is a essentially a domestic industry, and it is a very risky business for a company to go overseas. It is an industry that is supported by a local labour force, and to succeed the foreign companies must understand the foreign market."

Mr Taniguchi says big projects such as the Kansai Airport and Tokyo Bay proposals should be open to overseas competition, even though they are essentially social spending, intended to "vitalise" the domestic market.

Mr Yoshihiro Yamada, corporate planning manager of Kajima Corporation, claims the award of a licence to Bechtel proves there is no discrimination against overseas companies.

"It is not that we are defending ourselves. But Japan has many earthquakes, so land and environment need to be studied carefully, and those who do this will get a higher evaluation from the Construction Ministry," he says.

The indications are that the Japanese companies expect the market to be opened up gradually in response to political pressures from overseas.

Their strategy will be to put off full competition as long as possible, while building up their own business outside Japan.

Kevin Brown

Pharmaceuticals

Squeeze on domestic profits forces rethink

JAPANESE DRUG companies have been faring better than they expected in the 1980s.

Successive Government measures to cut the costs of prescription drugs by about 35 per cent since 1981 provoked a stream of complaints and gloomy profit forecasts from the industry.

In practice, the leading drug makers have coped well enough, buoyed by a continuing growth in demand from Japan's ageing population and an overdue attack on production costs. Six big companies, which reported interim results for the six months to September recently, posted average pre-tax profit increases of 25 per cent.

Moreover, by straining the once-cosy relationship between the industry and the Ministry of Health and Welfare, the Government might yet have done the drug companies a huge favour. Now that the blinkers of protected profits at home have been lifted, the industry is being forced to look abroad.

Unlike, Japanese electronics and vehicle manufacturers, Japanese drug companies are minnows in the export markets, selling under 5 per cent of their output abroad. They have lagged US and European rivals in the development of new medicines - preferring instead to sell foreign products under licence in Japan.

Indeed, the size of the domestic market, coupled with foreign companies' difficulties in penetrating it, has made this a very lucrative strategy. Shionogi, for example, relies on a string of drugs made by Eli Lilly of the US for much of its profits.

However, the Government's cuts in prescription payments has steadily transformed the outlook. One Japanese drug company executive says: " In the long-term we have to go overseas. We will not be able to make enough money at home."

The ministry is relenting slightly in its cost-reducing campaign. Its target is to hold total growth in health care spending below the increase in gross national product. After average price cuts of 18.6 per cent in 1981 and 16.6 per cent in 1984 a further reduction due this year has been postponed until next April. Nevertheless, a cut of 10-15 per cent looks to be on the way.

The complex way in which the reductions are applied gives the companies great room for manoeuvre. Drugs likely to attract big reductions in the ministry's sphere of influence - which covers hospitals, clinics and general practitioners - can often be redirected to over-counter-sale in fast-growing western-style health care supermarkets.

More significantly, the ministry's rules hit old-established drugs much harder than new ones - increasing the incentive to invest in the future. As a result spending on research and development rose to an average of 9.5 per cent of sales last year - close to US levels.

The result is that development-oriented companies, are likely to do better than those which continue to rely more heavily on foreign licences.

"In the long-term we have to go overseas"

Mr Stephen Church, an analyst at stockbroker Wood Mackenzie in Tokyo, says: "The current spate of new product launches will permit the better-placed companies to manoeuvre and employ marketing stratagems to avoid the worst of the (price) revision. The weaker companies, without the cushion of new products, will be further squeezed."

Some of the industry' leaders could also be under pressure, in the long-term. Takeda, the biggest Japanese manufacturer with sales in the year to March 1987 of Y571.5bn, has long made a virtue of exploiting domestic franchises, among them drugs made by the West German group Bayer.

Takeda has subsidiaries and joint ventures overseas but no internationally-competitive self-developed products to market

However, Fujisawa Pharmaceutical, which has suffered in the last five years from the pressures on its mainstay drugs (including Tagamet, made under licence), has invested heavily in research and development and in overseas ventures. It has launched three new products this year and two more are in the pipeline for 1988 and 1989. Fujisawa has high hopes for a US venture with Smith Kline and for Klinge, a 28-per-cent-owned West German affiliate.

Nevertheless, Japanese companies will have to overcome some important obstacles if they are to expand successfully overseas. Firstly, they are dwarfed by the competition. Takeda's sales are only about a third of those of Johnson & Johnson, the largest US company. Leading US and European companies are often also more profitable - the direct result of producing more self-developed drugs.

Further, Japanese companies acknowledge that in some respects their basic research is not as effective as that of leading US and European companies. Finally, Japan is less strict than other countries in testing the efficacy of certain drugs before they are marketed.

In two key areas - anti-cancer drugs and preparations for treating senile dementia - companies are allowed sell products in Japan, which are not marketed elsewhere. The result is that companies are to some extent encouraged to develop products which have little hope of being sold abroad.

However, when it comes to research the Japanese are trying to catch up. Otsuka Pharmaceutical has opened research centres in the US and West Germany; Yamanouchi Pharmaceutical is building a plant in Ireland to producer Gaster, an anti-ulcer drug. And investment in research is beginning to generate some results in the international market. Takeda, Yamanouchi, Otsuka and others, as well as Fujisawa, all have drugs under test in the US.

But success will not come easily. The regulations which control drug import and production are tighter than those for almost any other product. So foreign markets mean costly investment in testing. Marketing too will be difficult - companies with only one or two products may end up giving most of the profit to partners or agents.

Nevertheless, if the way the Japanese industry has reacted to the transformation of its home market is any measure of vitality then foreign manufacturers would do well to watch the Japanese drug companies closely over the next ten years.

Stefan Wagstyl

Japan's railways have been split up as a ...

Privatisation prelude

THE DUST is beginning to settle on the biggest shake-up in public transport since the creation of the Japanese National Railways in 1949.

Contrary to the impression given by much Government literature, JNR has not been privatised, at least in the accepted European sense of the word.

However, it has been broken up and removed from direct government control, in a move which raises questions about the future direction of Japanese railways policy.

The Japanese approach is also being carefully studied by the civil servants responsible for Europe's state railways, for whom it could provide a recipe for acceptable change.

The Government of Mr Yasuhiro Nakasone, Japan's most forthright post-war Prime Minister, took the decision to do something about JNR in 1985, when the scale of operating losses reached Y6.3bn (£26m) a day.

The fear was that losses on this scale endangered the corporation's ability to make interest payments on its accumulated debt, which by the end of 1986 had reached Y25,400bn (£106bn).

The solution chosen by the Nakasone Government was to split JNR into six regional passenger companies, plus a national freight company, and a holding company for Shinkansen (bullet train) assets.

Echoing conservative thinking in Europe, the Government claimed the operating companies would be transformed by the removal of bureaucratic interference, and would rapidly increase their efficiency and profitability.

More tangibly, however, they will benefit from a huge reduction in the debt burden, most of which has been shouldered by a residual body known as the JNR Settlement Corporation.

This device means that the freight service and the three big passenger companies on the main island of Honshu started life with minimal debt when the reorganisation took effect in April.

The smaller companies on the islands of Hokkaido, Shikoku and Kyushu were set up free of debt, and, in addition, will receive a total of Y12bn per year from a fund set up to provide a stable level of subsidies.

There have also been cuts in services, mostly on underused rural routes, and major savings in manpower, though the passenger companies remain more highly staffed than most European railway authorities.

As a result, each of the new companies is expected to be profitable from the first year of operation, with profits ranging from Y0.5bn for Shikoku to Y16bn for the Tokyo-based East Japan Railway Company.

The Settlement Corporation, meanwhile, will dispose of land and other interests worth around Y8,400bn, leaving the taxpayer to pick up a final bill for the restructuring of around Y14,200bn.

In the long term, this bill may be covered by the proceeds of the sale of the operating companies to the private sector. The Government has set a tentative date of 1992 for the first sale, but no decisions have yet been taken on the mechanism to be adopted, or the potential value.

Decisions have to be taken first on the regulatory climate

Some observers have tipped railways as strong growth stocks

which will prevail after privatisation, and whether the JNR companies are to be brought under the same regime as the existing private railways.

There are 153 private railway undertakings in Japan, including subways, monorail systems and cable railways. But the dominant force is the 14 major conventional systems concentrated in the three great industrial metropolitan areas of Tokyo, Osaka and Nagoya.

The commuter services operated by the private railways are immensely important to Japan's transport infrastructure - mostly as a means of moving huge numbers of white-collar workers from home to office.

In 1984, the latest year for which comparative figures are available, they accounted for 1,326bn passenger kilometres travelled, compared with 1,975bn passenger kilometres on the 21,000km JNR network.

As a consequence of their importance to the economy, the private railways are strictly controlled, and operate virtually as public utilities (though most are owned by or associated with trading groups with widespread non-rail interests).

In practice, this means that Ministry of Transport permission is required for construction work and changes to fare schedules, and profits are limited to a "reasonable" return after covering the costs of efficient operation.

Despite this, railway stocks have been popular with investors in Japan, partly because most have large holdings of potential development land, and share prices were seen to be at a discount to net asset values.

Some market observers have tipped railways as strong growth stocks, on the grounds that the impending privatisation of the JNR companies is bound to lead to deregulation of the industry, followed by increased profits.

This view has been forcefully put by Mr Stephen Archer, the Tokyo-based transport analyst of the UK stockbroker Hoare Govett.

Mr Archer argues that the Government will have to maximise the profits of the JNR companies before they can be sold to the private sector, and points out that this will be difficult if they remain constrained by the existing private railways regime.

On the other hand, he says, it would clearly be inconsistent if the JNR companies were afforded privileged treatment, so a reduction in profit constraints for all railway operators would be the logical answer.

Mr Archer also forecasts that the Government may find it difficult to sell the JNR companies because the basic business is unattractive. He suggests this may lead ministers to "invite" the private companies to purchase large minority holdings in exchange for concessions on deregulation.

If deregulation is on the agenda, the Government still has some time to consider the details, for it would probably not need to be in place until a year or two before the JNR sales begin, in five years' time.

There is little indication at this stage, however, that liberalisation is seriously proposed, largely because of the continuing Government stress on the quality and stability of service rather than return on assets.

The Transport Ministry points out that the JNR successor companies have been structured in such a way as to make them naturally profitable, even if the level of profits will be small by the standards of some other industries.

The ministry says investors will be attracted to the privatisation issues by the prospect of a safe investment offering a steady if unspectacular return, and claims there is no need to increase the attractiveness of the stocks through deregulation.

It also points out that an element of liberalisation was built into the break-up of JNR, in that the successor companies are now able to diversify into profitable non-rail operations.

This view is echoed by the Japan Private Railways Association, representing the 14 major companies, which says significant fare increases are unlikely to be allowed by the Government because of the social impact such a move would have.

Mr Tetsuo Nozaki, deputy director of corporate affairs at the East Japan Railway Company, also says changes in the key regulations affecting fares and profits are unlikely, but insists that this will not make the JNR companies unattractive to investors.

East Japan Railway has included a wide variety of potential business areas in its articles of association, however, and is in the process of expanding its non-rail activities to 30 per cent of turnover.

The range of enterprises indicates an innovative spirit which would not have been associated with the old, unreformed JNR - it includes property development, restaurants, warehousing, insurance, a travel agency, horticulture projects in disused rail tunnels, and a golf driving range on top of Yokohama station.

Mr Nozaki says revenue is up 5-6 per cent over last year, largely as a result of increased numbers of passengers enticed onto the railway by more aggressive marketing and improved services, especially on commuter routes.

The company is forecasting a pretax profit of Y16bn this year on turnover of Y1,470bn, after taking account of interest payments of Y200bn on Y3,300bn debt inherited from JNR, and a special loss of Y5bn in connection with a major rail tunnel project.

The objective is to achieve annual profits of Y100bn by the time the privatisation process starts, which Mr Nozaki believes will be sufficient to ensure a successful flotation.

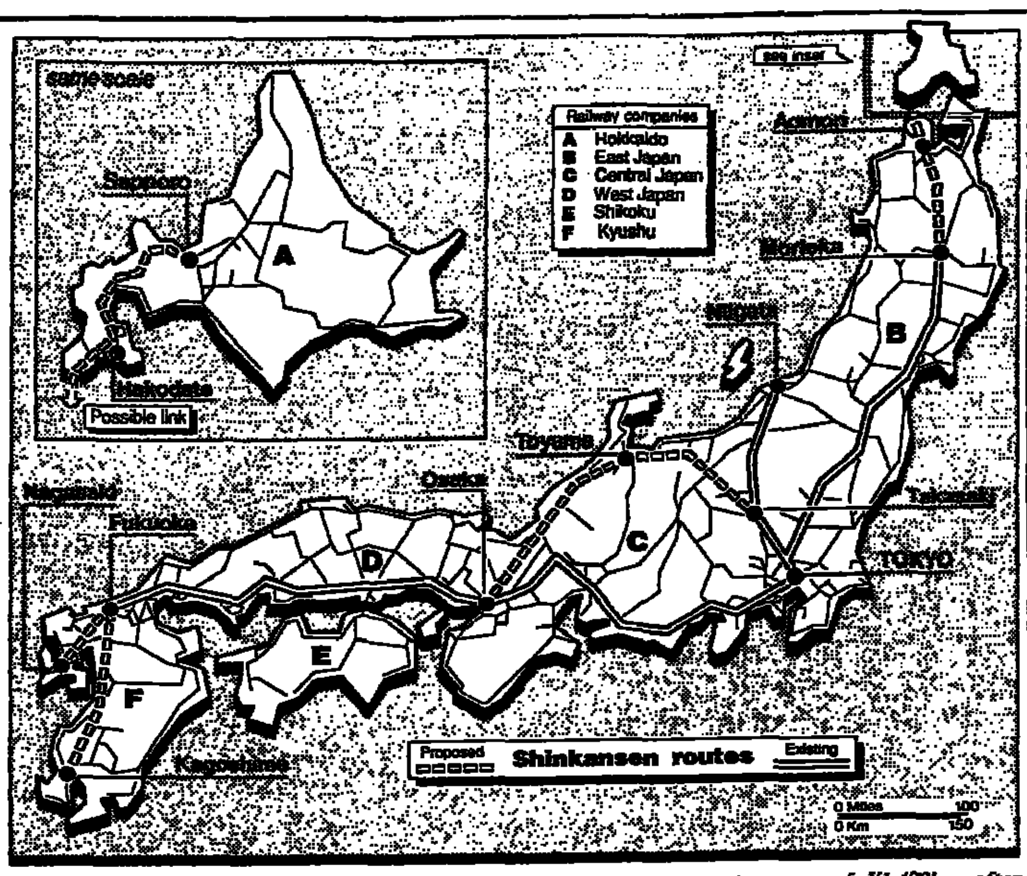
Meanwhile, the Government faces further difficult choices over proposed extensions to the impressive, but expensive, Shinkansen network.

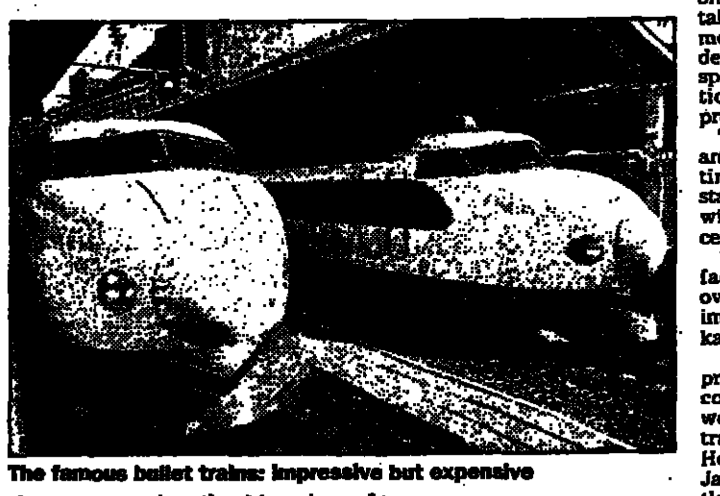
Four new routes have been proposed, totalling 1,440km at a cost of Y5,320bn. The effect would be to extend the bullet train to less populated areas in Hokkaido, Kyushu and on the Japan Sea coast, but there is little prospect of profitable operation, even excluding construction costs.

Traffic forecasts produced by the Transport Ministry indicate that volume would be only 18,000 passengers per day by the year 2000, compared with 231,000 per day on the existing 1,835km of track.

The Government is coming under great pressure to go ahead from MPs with constituencies along the proposed routes, but no decision is likely for some time. The indications from the Ministry, however, are that there is little prospect of all four lines being built.

Kevin Brown
Transport Correspondent





The famous bullet trains: impressive but expensive

Seikan rail tunnel

Technological marvel on test

THE TRAIN FROM Hakodate, premier port of Japan's northern island of Hokkaido, hugs the coast for nearly two hours before it reaches the fishing village of Yoshioka.

Disembark here and you enter a world of fishermen, shopkeepers, and small-scale farmers, their wooden homes decorated with two-foot-long horseradish roots hung out to dry in the northern sun.

Look down and you see only the rugged coastline, little different probably from the scene that greeted the first Japanese colonists in Hokkaido only 120 years ago.

But under your feet lies one of the technological marvels of the modern world - the 53.9km Seikan rail tunnel, through which test trains are now running in preparation for the first passenger services, which start on March 13.

The tunnel project has a long history, and it has not all been plain sailing. The first proposals were made before the Second World War, when the Imperial Japanese Army decided it needed a better way of reinforcing Hokkaido against possible Soviet attack than the four-hour ferry journey across the Tsugaru Straits.

Survey work came to an end with Japan's defeat in 1945, though the military implications of the tunnel remain, even if unspoken in a country which has renounced militarism.

In the end, it was the deaths of more than 1,400 ferry passengers, drowned in the Straits during a 1954 typhoon, which persuaded the authorities to go ahead.

Work started at Yoshioka in 1964. They said it would take 10 years and cost Y60bn (£250m at current exchange rates). In the event, it cost Y690bn, took 23 years, and has cost 34 lives.

Construction workers struggled through one geological fault after another, alternatively blasting and boring through the underground debris of the earthquakes to which the Japanese have become accustomed.

Frequently they were stopped by flooding. In one major incident more than 80 tons of water a minute swept into the tunnel in a flood that took more than two months to control.

Now construction work is almost finished, and soon it will be possible to travel non-stop by rail from Honshu to Hakodate and Sapporo, capital of Hokkaido, and Japan's most northerly big city.

The trains will enter the tunnel 13.5km inland, passing under the coastal mountains of Honshu before crossing the coastline 100m beneath the seabed for the 23.3km underwater section to Yoshioka.

Here there are more mountains, and the tunnel continues a further 17km inland under Hokkaido before the trains emerge for the final stage of their journey to Hakodate and Sapporo.

This is not the end of the construction work, however: new tracks have been laid on both sides of the tunnel, linking the two entrances to Hakodate and Aomori, the nearest big town on Honshu.

Initially, workers on the Hokkaido side entered the tunnel down a vertical shaft; now visitors are carried in style in an open rail car down a 14 degree slope.

At the bottom there are few faces and little activity - only 400 remain of the workforce of 6,000 which built the tunnel. A few bicycles are left in their racks, and an old Toyota truck stands parked in a side tunnel; this is how the workers moved around underground.

Many of them were former fishermen and miners, attracted to the project by the promise of steady employment, says Mr Akira Sato, engineer in charge at Yoshioka.

Now most of them are gone, and Mr Sato will retire next year after spending 24 years of his life on the tunnel. "It's like bringing up children, and then finding one day that they are old enough to go off on their own," he says sadly.

On the tunnel wall, bracketed firmly to 30cm of concrete, a remote control camera watches the visitors watching a train passing through the tunnel. In the Hokkaido Railway Company's computerised control centre in Hakodate, Mr Masaya Shojiguchi, assistant manager, watches too.

Later, he explains the tunnel's numerous fail-safe systems, its back-up electrical supply, and its eight earthquake monitors inserted into weak points in the sea bed.

Here they can measure everything from wind speed to air pressure, control ventilation and pumping equipment, and even

Continued on next page

Yen's rise has exacerbated shipping and shipbuilding's problems

More difficult life at the top

FOR JAPAN'S maritime industries, life at the top is becoming increasingly difficult.

Japanese shipowners continue to control one of the world's largest fleets, but face increasingly difficult structural problems, as a result of which most companies are currently making losses.

In shipbuilding, the position is even worse. Almost all yards are losing money, and Japan has just been replaced as the world's biggest shipbuilder by South Korea.

Nevertheless, there is some optimism in both sectors, and plenty of ideas about how to maintain the scale of existing businesses until an upturn in world trade brings easier times.

The emergence of South Korea as the world's biggest shipbuilder was confirmed in figures issued for the third quarter of this year by Lloyd's Register, the independent London-based classification society.

The society said South Korea had 5.458m gross tons of shipping either under construction or on order in the quarter ended on September 30, compared with 5.449m tons in Japan.

This is the first time for more than 20 years that Japan has failed to appear in the leading position in Lloyd's Register's quarterly figures; it came as a blow to Japanese prestige.

The blow was not unexpected, however. Japan's shipyards have been in trouble since the oil shock of 1973, which substantially reduced the volume world trade, with a consequential effect on demand for ships.

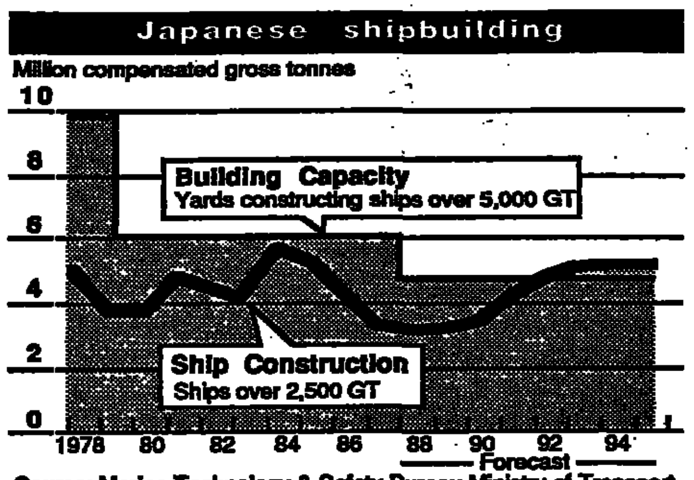
At the same time, South Korea was beginning to carve out a share of the shipbuilding market for itself, on the back of wage levels some 30 per cent lower than in Japan, and overall costs up to 40 per cent lower.

The Japanese industry gave itself a breathing space by cutting capacity by 35 per cent in 1978/79, and was still producing 52 per cent of the world's ships as recently as last year.

The problems have been exacerbated, however, by the rapid appreciation of the yen over the last year, which has badly affected the export-oriented shipyards.

The industry is in the process of cutting capacity by a further 20 per cent, and is expected to put proposals before the Government this month for more cooperation between companies, probably stopping short of mergers.

There are doubts about how effective this proposal will be: several of the big companies are believed to be planning to meet the letter of the Government's request by merging with their own subsidiaries, but few are keen to share resources and technology with rivals.



Source: Marine Technology & Safety Bureau, Ministry of Transport

The Shipbuilders' Association of Japan concedes that grouping companies together may take some time, but claims that a 20 per cent cut in capacity will be sufficient to keep the remaining yards in business in the medium to long term.

How big that business will be is another matter. Japanese shipbuilders no longer speak even of remaining the world's largest single shipbuilder, let alone of once again building more than half of all ships.

The extent of ambition now is to ride out the remainder of the recession in the hope of an upturn in ordering in the 1990s, when much of the world fleet will require replacement.

The SAJ says there is "no set target" for Japan's share of the market. "As long as we can retain the industry in Japan we will retain the capacity to take advantage of any improvement."

Ishikawajima-Harima Heavy Industries, one of the biggest Japanese shipbuilders, says its strategy is to keep its yards ticking over, while at the same cutting costs in the hope of eventual reaching break-even.

IHI has cut its shipbuilding workforce by 3,500 in the last year, to 20 per cent of the group's total workforce, but says more will have to go to bring the numbers into line with the 14 per cent of turnover accounted for by shipbuilding.

There are bright spots on the inquiries it is receiving from potential customers has tripled in recent months, although there is little hope that any of these will be rapidly translated into orders.

IHI is also one of a number of Japanese companies which are pursuing the prospect of building cruise ships - the only shipbuilding sector in which European yards still predominate.

The SAJ says Japanese yards may soon begin to announce orders for cruise ships, but is pessimistic about the prospects for large-scale construction.

"I do not believe there is a potentially large market in this for Japanese shipbuilders," said the association's spokesman.

Meanwhile, a further threat is looming on the horizon as China begins to flex its muscles as a large scale shipbuilder - it has the world's fifth largest order book, according to Lloyd's Register.

The hope in Tokyo is that this will put more pressure on South Korea than on the more sophisticated Japanese yards. If not, Japan may find itself squeezed between two low cost competitors.

Mr Takashi Matsui, managing director of Mitsui OSK Lines, was forthright about the position of Japanese shipping: "We are losing international competitiveness, mainly due to the appreciation of the yen, but also because of the rising cost of seamen's wages," he said.

Many observers believe shipping companies would be better able to cope with these problems but for the rigidities established by a consolidation of the industry in 1964.

According to Mr Nick Edwards, Tokyo-based shipping analyst of Jardine Fleming (Securities), this Transport Ministry - inspired reorganisation reduced the fierce competitiveness among domestic companies, and heralded a period of stability and growth.

But it kept alive a number of companies which would otherwise have gone out of business, and this has caused problems in the difficult post-1973 market.

On this view, there is little hope for improvement in the dismal profit record of recent years. This is borne out to some extent by the recent crop of first half results, in which four of the big six companies remained in the red, while Nippon Yusen and Mitsui OSK Lines, the big two, reported only small profits.

The outlook is not all gloom, however. The amount of surplus tonnage has begun to fall, albeit only slowly, and freight rates are edging up from the trough of 1985, though still below the levels of 1984.

And the Japanese lines are taking action to reduce costs and increase their presence in the expanding cross-trades between the developing countries of the Far East and the US.

The most painful part of the strategy is substantial reductions in manning agreed after long negotiations with the seamen's union

The effect of this is that manning is being reduced by 40 to 50 per cent, on top of substantial cuts which have already taken place. Mitsui OSK, for instance, is cutting its seagoing workforce from 2,000 to 1,200 by March, having already got rid of 2,000 seamen over the last 10 years.

The cost is high - around £80,000 per man, plus the cost of reduced wages for a nine-month transitional period - but the process is regarded as essential for long-term profitability.

In addition to this, the companies are moving increasingly towards employing crews from elsewhere in Asia - often at salaries around 20 per cent of Japanese rates - though this usually means registering ships outside Japan.

The other major area for long-term cost savings is by replacing older ships with more fuel efficient vessels, operated by fewer crew.

This is inevitably a slow process because of the capital investment involved, but 231 modernised ships are now in service with Japanese owners. Of these, 153 have 18-man crews, 47 have 16-man crews, and 31 have 14-man crews. In addition, seven experimental "Pioneer" ships are in service with 11-man crews.

Kevin Brown

Profile: Nippon Yusen

Towards a diversified future

NIPPON YUSEN, Japan's biggest shipping company, reported a 53.5 per cent fall in first half operating profits this year, to Y4,286m (£17.8m).

It was a disappointing performance, and for the second consecutive year the board decided not to pay an interim dividend (though it plans a final dividend even if it has to be financed from reserves).

The problems facing the company are common to most of the Japanese shipping industry - low freight rates, rising fuel costs, and the depressing effect of the rising yen on revenue denominated in US dollars.

Like other companies, Nippon Yusen, known as NYK, is moving into the expanding Pacific trade between the US and other Far Eastern countries, and is investing in modernised ships to cut costs.

This market is fiercely competitive, however, and is becoming more so: the number of container slots on the Pacific is expected to increase by 15 per cent this year, despite the collapse of the ill-fated US Lines round-the-world service.

NYK says it is in the process of doubling its own container space, and intends to be among the survivors, though managers accept that this could be expensive.

"In order to be a winner in this survival game we have got to strengthen our services and brush up our quality," says Mr Hiroshi Takahashi, NYK's director for North American services.

"Only the strongest, fastest and most reliable companies will survive on the trans-Pacific routes - NYK intends to be one of these," he says.

NYK managers stress that the company intends to remain heavily involved in its core business of liner shipping. But the long-term strategy is to diversify in three separate directions - distribution, financial services and property development, and leisure.

In distribution, the plan is to move further towards involvement in all stages of the transport chain as a door-to-door operator.

Only the strongest, fastest and most reliable will survive on the trans-Pacific routes

This would include freight forwarding, route planning by both land and sea, shipping support services and distribution to final destinations.

"What we want to be by the 21st Century is mega-carriers in sea, air and land transportation, and major players in logistics and inventory control," said a senior manager.

NYK already controls cargo storage facilities in Tokyo, and Dusseldorf, in West Germany, and is establishing similar operations in Kobe, near Osaka, Los Angeles, Toronto and Hong Kong.

The company claims to have had some success in persuading customers to leave control of their inventory, as well as their physical cargo, in NYK's hands.

The next step, it says, will be to set up distribution centres next to the factories of Japanese carmakers operating in the US, such as Toyota, Mitsubishi and Honda.

NYK is also moving into distribution by train from the Pacific US gateway, and has recently established a double stack train facility in Los Angeles to serve the MidWest and East Coast.

In aviation, NYK is an investor in Nippon Cargo Airlines, which it sees as a link in the distribution chain, but takes no part in operations.

The second arm of NYK's diversification strategy is in financial services, principally through NYK International, an investor in the European markets, which recently moved its headquarters from Luxembourg to London.

Within Japan, Yusen Accounting performs a similar role as an investor in domestic markets, while also handling the financial affairs of the parent company and selling expertise to outside customers.

The company is also carving out a significant role in property development. It recently announced its intention to develop 11 sites, including company premises in Yokohama and Kobe, for offices and housing.

In addition, seven floors of NYK's valuable Tokyo headquarters have been let and company personnel moved to less expensive accommodation.

In the leisure field, NYK is studying the possibility of returning to the passenger ship market - in which it was one of the world's largest players before World War II - as a cruise ship operator.

No decisions have yet been taken, but NYK is known to have had talks recently with Wartsila, the Finnish specialist in cruise ship construction.

NYK is thought to have budgeted to spend up to $200m initially on its cruise ship ambitions, including both construction and start up costs.

The venture is partially dependent, however, on the current attempts of the Japanese Government to persuade Japanese people to devote more time, and spending power, to leisure activities.

NYK is also considering a $150m joint venture with a Japanese construction company to provide a marina in Tokyo Bay, including a yacht harbour, amusement centre, swimming pools, aquariums, shops and restaurants.

NYK's long term intention is to increase the contribution of non-shipping activities to group turnover from around 30 per cent to 44 per cent by 2005. Non-transport business would account for 16 per cent of revenues.

Kevin Brown

Marvel on test

From previous page

make announcements to those below ground in the tunnel.

Mr Okino says an accident of any kind in the tunnel is likely only once in every 70 years, and even then it is likely to be minor. Passengers would be conducted through escape passages to emergency underground stations before being ferried to the surface.

Staff are in the final stages of training for the March opening, when all activity in the tunnel will be controlled by 45 operators working in three shifts.

In Sapporo, executives of the island's railway company can hardly conceal their impatience for the big day to arrive.

The tunnel was financed by 90 per cent loan capital and 10 per cent Government grant. But because of the division and impending privatisation of Japan National Railways, the debt has been passed on to a residual settlement corporation, and will be met largely by the taxpayer.

This means that the Hokkaido Railway Company will inherit the tunnel free of all debt, but it is still unlikely ever to make an operating profit.

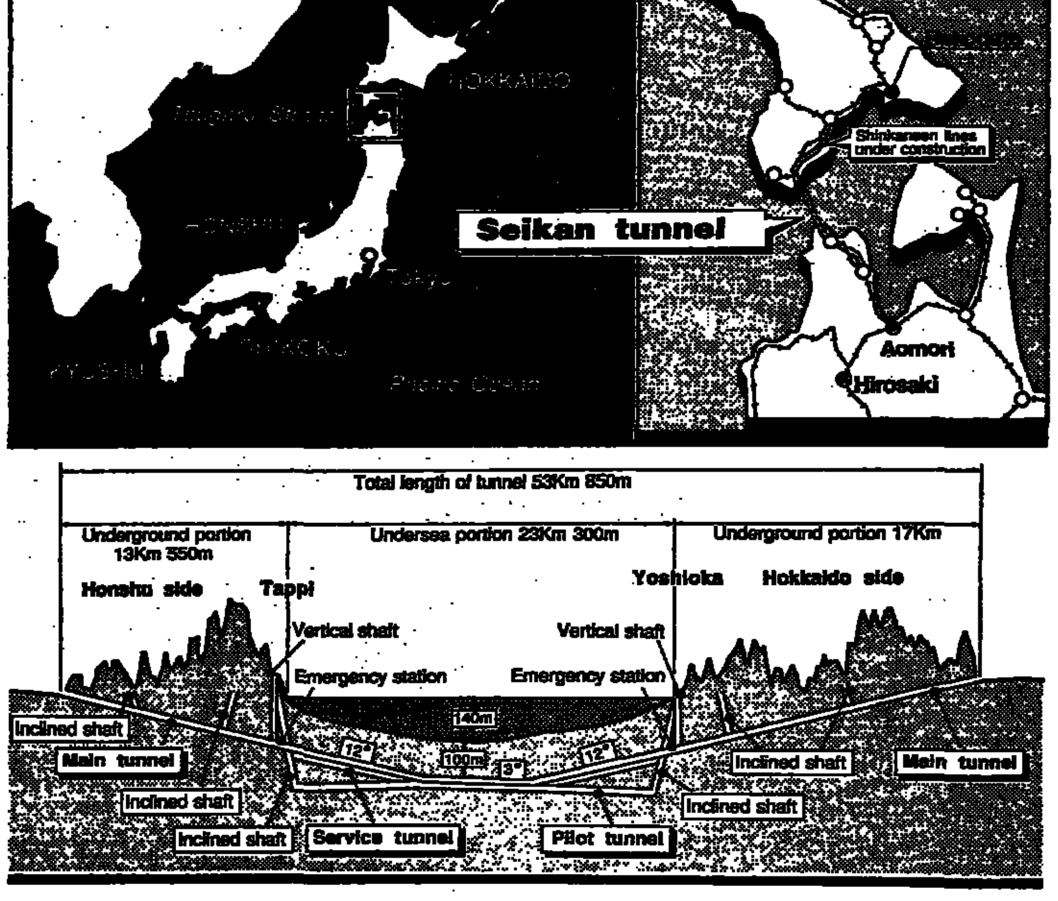
Running costs in the first year are expected to total Y7.7bn, against revenue of Y4.7bn, leaving a shortfall of Y3bn. This will be covered by a fixed subsidy of Y3bn per year paid from a fund set up by the Government to help the company break even.

The subsidy will remain at this level in perpetuity, giving the company a strong incentive to contain cost increases, and increase revenue.

Initial forecasts are that the number of passengers should show an annual increase of 3 to 5 per cent over the 198m expected to cross the Straits by rail ferry in the current year.

This offers the first opportunity in many years to reverse a steady downward trend in the rail ferries' share of traffic across the Straits - which fell from 38 per cent in 1975 to 16 per cent 10 years later.

Over the longer distance between Tokyo and Sapporo the rail/sea route has been reduced from 14 per cent of the market in 1975 to 4 per cent, a level at which it has virtually ceased to compete with the airlines, which now have 96 per cent of the traffic.



The position is little better in the freight market, in which the rail ferry share has fallen from 12 per cent to 7 per cent (though the major competition here is not airlines but privately owned ferries, which have 79 per cent of traffic).

The Hokkaido Railway Company concedes that the Y690bn is a lot to pay for an increase in traffic of 3-5 per cent a year, though executives point out that the decision to build the tunnel was taken by the Government and not by railway executives.

The increase in traffic would have been as high as 50 per cent if the Government had gone ahead with plans to run Shinkansen (Bullet Trains) through the tunnel.

This would have cut the 14-hour rail and sea journey from Tokyo to Sapporo to just five hours and 40 minutes - a massive time saving of more than eight hours (though still uncompetitive with the flying time of under two hours).

Conventional trains, by contrast, will reduce the journey time by only 1hr 50mins, meaning that passengers still face a journey more than six times as long as that offered by the airlines.

The decision not to go ahead with the Shinkansen was made despite the fact that the tunnel has been constructed to allow for both Bullet Trains and conventional trains to run on the same track bed.

Plans for an extension of the Shinkansen line to Sapporo from its present terminal at Morioka in northern Honshu are still being considered by the Transport Ministry as part of a Y5,320bn expansion programme, but no-one on Hokkaido is very confident that the go-ahead will be given.

Mr Akio Koike, administration manager of the Hokkaido Railway Company, says this is a pity, since a tunnel with Shinkansen capacity would at least cover its operating costs and might even make a profit.

Like other railway managers, Mr Koike is justifiably excited by the prospect of operating the tunnel, but he is hard put to it to explain precisely what it is for, in the absence of a high-speed train link.

Like Transport Ministry spokesmen in Tokyo, he talks vaguely of tourism, industrial promotion and the possibility of a catalytic influence on the general development of relatively underpopulated Hokkaido, where less than 5 per cent of the Japanese population inhabit 22 per cent of the land mass.

In the end, it is hard to avoid the conclusion that the tunnel is an engineering showcase which in an economic sense, has all but missed the boat.

Kevin Brown

Aviation

Policy of relaxation triggers change

JAPAN IS IN THE throes of implementing changes in aviation policy which have been described by some observers as deregulation, though any similarity with the deregulation of US aviation is purely superficial.

The policy would be better described, said one local airline official, as liberalisation, and limited liberalisation at that.

Nonetheless, the changes are important, both for the customers, many of whom have yet to experience the benefits of competition, and for the future of the three main airlines.

The biggest shake up is going on at Japan Air Lines, the country's main international carrier, which is in the process of privatisation. But there are also major changes afoot at All Nippon Airways (ANA) and Toa Domestic Airways (TDA).

The Government decided to liberalise aviation early in 1985, after reaching an interim air services agreement with the US which included provisions for JAL's domestic competitors to be given access to trans Pacific routes.

The original plan was for the Government's 34.5 per cent controlling stake in JAL to be sold in 1988, allowing three years for both JAL and its domestic competitors to acclimatise to the new regime.

The timetable was speeded up after a disastrous crash in August 1985, when a Boeing 747 operated by JAL crashed on a Japanese mountain, killing 520 people and badly affecting the airline's public image.

The sale will now take place this month, though the airline has effectively been operating as a private sector company since mid November, when new articles of association were approved by an extraordinary meeting of shareholders.

The roots of the liberalisation policy lie even further back, with the Government's decision in 1971 to allow ANA to fly international charters in addition to its domestic route network.

This was the first breach in JAL's international monopoly; later, the Government also licensed the all cargo airline Nippon Cargo Airlines to fly international routes formerly served by JAL.

The mirror image of the new willingness to countenance competition on international routes was limited approval of increased domestic competition, partly to compensate JAL for losing its international monopoly.

This began in the mid 1970s when JAL was allowed limited entry to routes operated by ANA and TDA, and has now been extended and formalised by a

US-style deregulation would be "inappropriate" for Japan

system of double and triple tracking. Three airlines are allowed to fly routes with more than 1m passengers a year, and two on routes with more than 700,000.

The effect of these changes is to usher in an era of relaxation of the highly regulated Japanese aviation market. But there is to be no change of policy on fares, which will continue to be controlled, or on route entry, which continues to be in bureaucratic hands.

There is no expectation within the airline industry of further relaxation of the regulatory regime, however. US style deregulation would be 'inappropriate' for Japan, airline executives say.

The liberalisation process is occurring at a time of significant natural growth in the Japanese aviation market, partly caused by an increasing awareness of national wealth, partly by the appreciating yen, and partly by a Government drive to persuade people to spend more on leisure activities such as holidays.

According to Mr Mitsunari Kawano, senior managing director of JAL, the number of Japanese travelling abroad is accelerating rapidly, with an annual growth rate of 7 per cent in 1985, 11.3 per cent in 1986, and 21.6 per cent in the six months to September this year.

This rate of increase makes the Government's target of doubling international travel by 1991 look easily achievable; but the airlines are starting from a very low base.

Only 5.5m Japanese travelled abroad last year, and the propensity of Japanese to go overseas is very low compared with other countries: only 4 Japanese in a hundred are likely to do so, compared with 15 Americans, 47 Britons, 48 West Germans and 61 French.

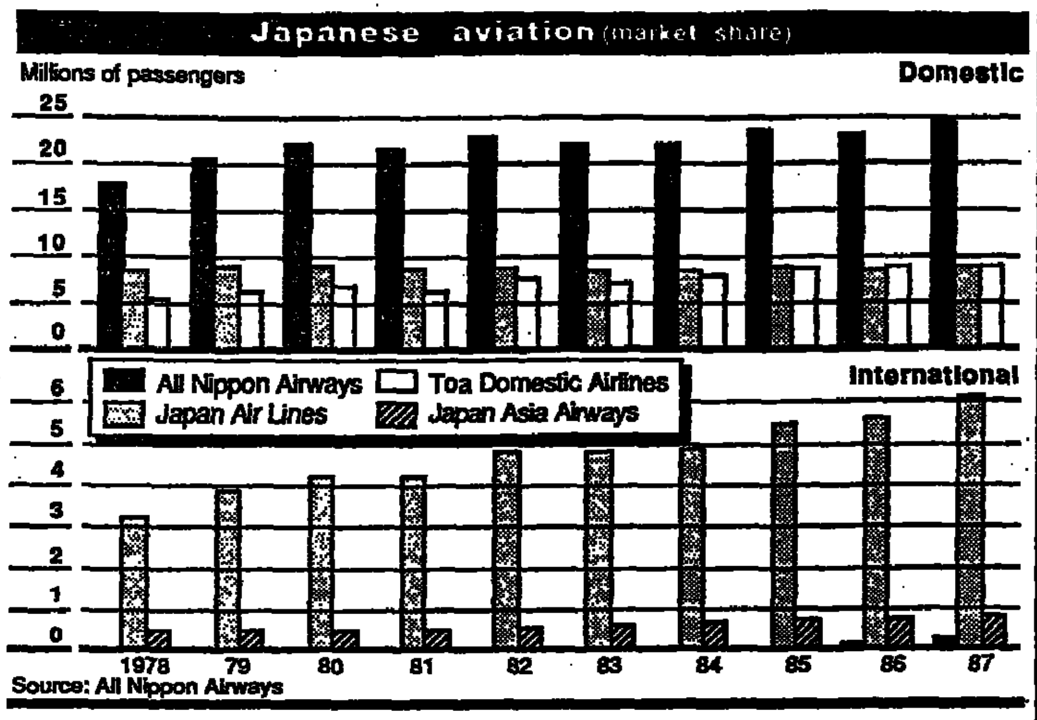
The domestic market is expanding more slowly, but is still showing real growth: Mr Jim Doherty, Tokyo-based aviation analyst of stockbrokers Jardine Fleming forecasts an 8.6 per cent increase this year.

Of the three airlines, JAL is clearly in the strongest position because of its size and dominance of international routes from Japan, although it faces difficult problems in overcoming higher costs and a history of trade union intransigence.

The airline says it has fully recovered from the effects of the 1985 crash, and is currently preparing for an increase in its 747 fleet - already the world's largest - and planning to enter a number of popular domestic routes in competition with existing carriers.

ANA is already flying seven international routes as a result of the liberalisation policy, and is planning to add Honolulu and Seoul next year, followed later by London, Paris, San Francisco and New York.

By 1991, says Mr Shunichi Soma, deputy corporate planning manager, the airline expects 30 per cent of its revenue to come from international scheduled flights, compared with zero last year.



Source: All Nippon Airways

Mr Soma says the costs of entering the international market are not expensive: the aircraft fleet is being increased gradually as routes are added, and ANA has maintained a presence at Narita for some years in order to be in a position to move quickly when the opportunity arose.

The airline's biggest problem, he says, is its lack of recognition abroad, caused by JAL's 30 year monopoly of international routes.

As a result, virtually all the passengers on the airline's existing overseas routes are Japanese. "What ANA has to do is get itself known so that it can start attracting international passengers," he says.

But if JAL's international reputation is a problem for competitors trying to break into overseas routes, many observers say the opposite is true in the domestic market, in which JAL's public image has been said to be ANA's best weapon.

Mr Soma declines to endorse this view publicly, but implicitly accepts it by pointing out that ANA is making no specific preparations to deal with competition from JAL.

"We are relying on our reputation as the best carrier," he says.

Mr Soma there is unlikely to be much competition on prices, apart from special promotions designed to attract off peak business, but believes there will be less spectacular benefits for consumers, principally through an increase in choice.

ANA is the strongest airline in the domestic market, with 53.5 per cent of traffic last year, and, indeed, is the seventh largest airline in the world in terms of passengers carried.

The airline increased its share of profitable trunk routes from 40 per cent to 43.8 per cent last year, but will face increasing competition in this area from JAL.

ANA admits to lobbying the Government for protection on these routes in order to protect its local services, 70 per cent of which are said to lose money.

Mr Minoru Morikawa, vice-president of TDA, the smallest of the three airlines, also presents a confident view of the future, partly on the basis of record pre-tax profits of Y4.9bn for the first six month of this year.

The airline has been operating international charter flights since last year in order to comply with Transport Ministry instructions to gain experience in international operations, and is planning to start scheduled services as soon as possible.

Current plans are to begin flights to Seoul in April, in order to take advantage of passengers travelling to the Olympic Games; and to add Honolulu in 1988/89. There are no other concrete proposals, but other services will also be concentrated in the Pacific Rim area.

As the smallest of the three airlines, TDA probably has most to gain from the opportunities opening up in the international arena, but it is also most at risk from the effects of competition in the domestic market from JAL.

The airline has less profitable trunk routes than ANA, and a greater proportion of loss-making local routes, most of which it has recently brought together in a low cost subsidiary called Air Commuter.

This company inherits accumulated losses of Y45m, but is expected to make a profit (after payment of subsidies) from 1989 onwards, and to clear its debts by 1991.

In other countries, a company in the position of TDA might be pressing to improve its competitive position by offloading some of these loss making social routes through route swapping.

Mr Morikawa says firmly, however:" There can be no question of disposing of these routes... Air Commuter is supported by the municipalities in the islands, and TDA feels it is its responsibility to give managerial and technical support so as to help maintain communications." Route swaps are unthinkable in Japan, he says.

TDA's priority is to keep up pressure on the Transport Ministry for strict enforcement of the double and triple tracking regulations, and to give TDA priority over JAL in domestic route expansion.

"This is necessary to allow TDA to build up its base to face free competition. We cannot face competition in a free market with a government-supported giant link JAL without achieving a great deal of growth first," he says.

Kevin Brown

Profile: JAL

Campaign for hearts, minds

THE SALE later this month of the Japanese Government's residual holding of 34.5 per cent in Japan Air Lines will bring to an end the most difficult period in the company's history.

Originally, the sale was planned for 1988, to give the airline time to acclimatise to the liberalisation of aviation services now taking place in Japan.

It was brought forward because of the horrific JAL Boeing 747 crash on a Japanese mountainside in April 1985, which killed 520 people.

An official investigation put the blame for the accident largely on Boeing but it led, nonetheless, to a big fall in JAL's market share, expecially in the important domestic market.

Mr Yasuhiro Nakasone, the former Prime Minister, is said to have decided personally that privatisation was the only possible solution for JAL, and the quicker the better.

Despite the recent heavy falls on the Tokyo Stock Exchange, it looks as though the Government will net substantially more for its holding than was initially envisaged.

The shares, which are to be sold at a three per cent discount on the market price, have been relatively volatile in recent weeks. But at Y17,800 in late November they were trading at a substantial premium to the Y8,000 budgeted by the Finance Ministry.

At this price, the Government's 48.09m shares would be worth Y830,322,000trillion (£3.4bn) after discounts but before expenses.

The impact of the crash on JAL cannot be overestimated: passenger numbers fell by 21.4 per cent in the second half of 1985, before recovering in the first half of 1986 to about 3 per cent below pre-crash levels.

The airline reported a net loss of Y4,088m for the year to March 1986, compared with profits of Y10,761m in the year before the crash. It lost a further Y7,480 in the 12 months to March this year.

There was a management shake-up in the wake of the crash, too. The president and executive vice-president resigned, and an unconventional businessman, Mr Junji Ito, was brought in as vice-chairman with a brief to revitalise the company and get to grips with its labour problems.

It may be an indication of the depth of the difficulties at JAL that Mr Ito quit in March after his abrasive attempts to force the pace of change apparently lost the confidence of both senior management and the Government.

Mr Susumu Yamaji, the current president, describes the current year as a period of transition and says he is convinced that the airline is regaining lost ground.

The aviation liberalisation programme will make this process more difficult, however, by increasing the competition JAL faces on international routes.

Two other domestic passenger airlines are gearing up for international competition, and more overseas carriers are flying to Japan for the first time - like Delta Airways from the US - or introducing direct services, like British Caledonian from the UK.

Jal has a relatively high load factor of 78 per cent in its key Pacific market, but the airline acknowledges that it cannot afford to be complacent.

It has fought back by introducing a new long-distance service of its own to Atlanta, together with a direct service to Chicago and more flights to Europe.

The impact of increased competition has been reduced, in any event, by strong growth in the number of passengers, though JAL has benefited less than some competitors: the airline's international traffic grew by 11 per cent in the first half of the current financial year, against 21.7 per cent for the market as a whole.

Liberalisation has also opened up opportunities for JAL in the domestic market, in which it was formerly restricted to a handful of domestic routes.

The airline's current four-year plan forecasts growth of 5.2 per cent in domestic passenger traffic, but this is likely to be revised upwards in view of current annual growth of 20 per cent, based on annualised first-half figures.

These figures contain an element of continued recovery from the 1985 crash, however; in the long term, JAL hopes for annual growth of about 10 per cent.

The expansion of domestic routes will have a further important spin-off benefit for JAL - the increased opportunities for

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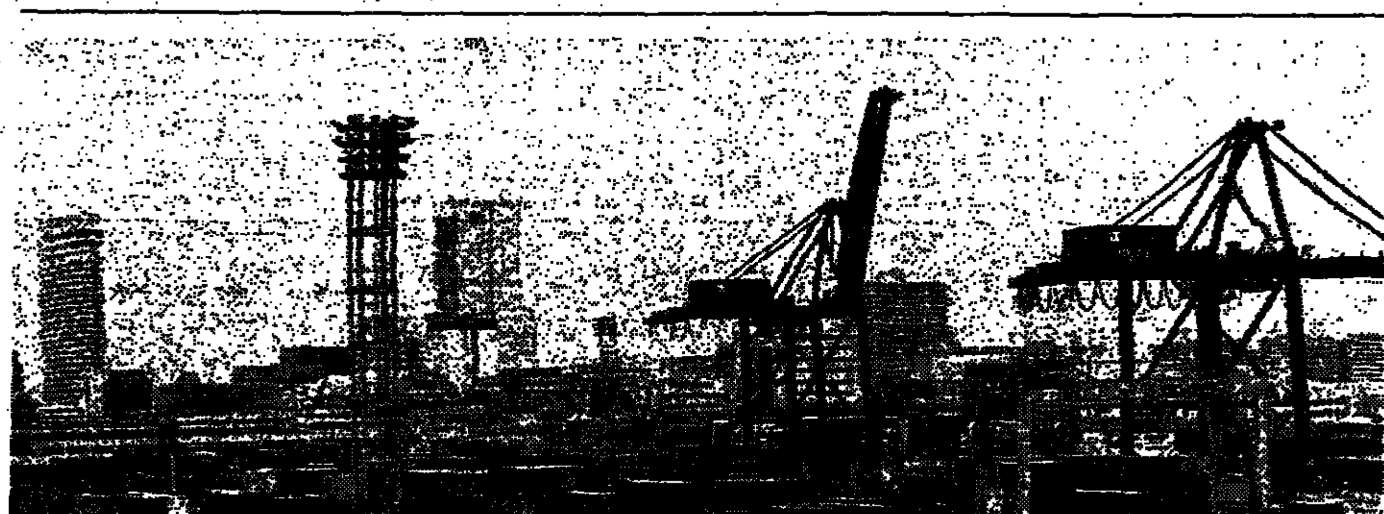
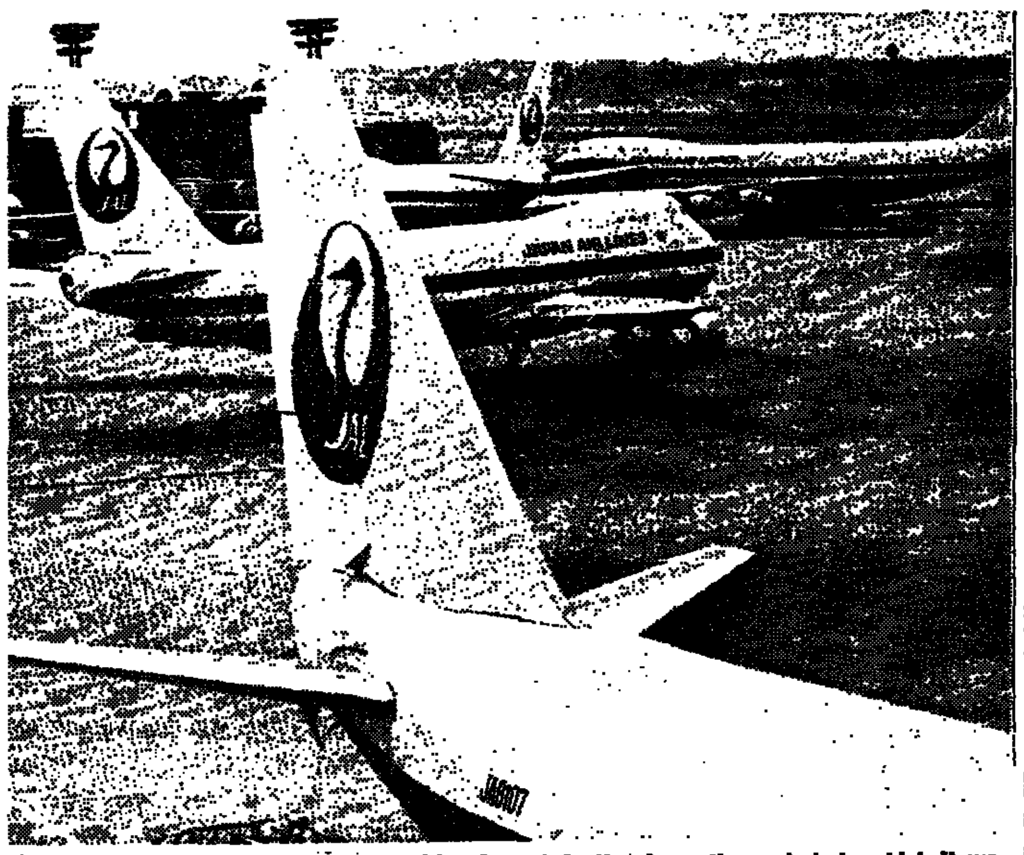

Nippon Yusen(NYK)'s container terminal at Minami wharf, Port Island, Kobe City: the company is in the process of doubling its own container space



"Liberalisation has opened up opportunities for JAL in the domestic market, in which it was formerly restricted to a handful of domestic routes."

Hearts and minds

From previous page

training pilots for long-haul flights. The airline still has about 40 non-Japanese pilots because of the difficulty of recruiting trained Japanese personnel.

JAL managers say privatisation will help shake off the image of the airline as bureaucratic, fuddy duddy and slow-moving.

A "hearts and minds" campaign has been launched to win over a sceptical public by developing ancillary services such as package tours, holiday resorts, hotels, publications, education and cultural seminars.

The airline is also seeking to maximise profits from aviation-related activities such as ground handling services, and from a variety of new trading enterprises including finance, distribution, and property development.

Substantial problems remain to be overcome, however, including financing an equipment purchasing programme - mainly aircraft - running at Y100bn per year.

Privatisation will cut off JAL's access to cheap funds guaranteed by Government backing, and end its legal exemption from restrictions on bond issues, which meant it could issue 2.5 times more paper than other Japanese companies.

As a result, JAL has to increase bank borrowing and leasing agreements to make ends meet. Some relief will be available through a five-year transitional financing system set up by the Government through the Japan Export-Import Bank.

The other main problem will be in labour relations - particularly in reducing the numbers of flight crew, where JAL is overmanned compared to other airlines.

The current plan is to reduce staffing from 20,500 to 19,400 over the next four years, but determined opposition is likely from both the flight crew union, which represents cockpit staff up to the rank of captain, and the flight attendants' union.

There could also be trouble with the pilots' union over the introduction of five Boeing 747 Dash 400 series aircraft in three years' time. These aircraft are designed to operate with a flight crew of two, rather than the three required for existing aircraft.

JAL management has publicly threatened to adopt a hard-line approach with the unions, which are widely perceived to have dictated to previous administrations.

The extent to which it is able to do so will represent one measure of the credibility of the new regime.

Kevin Brown

Mac Jeffrey explains the pitfalls of travelling round Tokyo

Ventures in a labyrinth

YOUR GEOMETRY teacher was wrong. The shortest distance between two points is *not* a straight line.

To prove it, just try travelling between any two points within metropolitan Tokyo, where the trip between hotel and office can turn into a meandering neighborhood tour, and a trip across town into an all-night adventure.

To the visiting business traveller, the problem may not be immediately evident. If you are being hosted by a local business person, they will almost always send a large black saloon to your hotel, cleverly impressing you with such comfort and luxury that you will probably not notice that it takes you 45 minutes to travel about two kilometres.

Your host will also engage you in lively conversation, further distracting you from the fact that the driver has just made his 15th consecutive left turn and is now squeezing down a street which is so narrow that pedestrians on both sides are being hit by the car's outboard mirrors.

Local folklore says that, long ago, the streets of Edo (as Tokyo was then called) were deliberately laid out as a labyrinth so that invading armies could not find their way to the Emperor's Palace which lay then, as now, at the centre.

The thinking here, presumably, was that intruding strangers would be too embarrassed to stop and ask directions (still true today), or perhaps that the local residents themselves would have no idea how to explain the directions (*definitely still true today*).

And to make matters worse, absolutely none of the streets in Tokyo, except for a handful of main thoroughfares, have names. Instead, addresses are expressed using the name of the district and a numerical code which is assigned to each building.

Because each building has its own unique code based on location and age of the building, the numbers can be easily deciphered to reveal the building's precise location - if you are a postman. Otherwise, the numbers make *little* sense *at all*, least of all to hotel clerks and taxi drivers.

As a result, Tokyo dwellers will generally explain their location to others by drawing crude maps, whose main points of reference are familiar intersections (e.g. "third light past the fourth underground stop on the Ginza Line") and recognisable landmarks ("the by-the-hour hotel that looks like the Space Shuttle").

Getting to where you want to go, then, depends on whether you can find these landmarks, which is a dicey proposition when you consider that most people in Tokyo really don't know how to draw maps anyway and may in fact wind up directing you to the Municipal Open-Air Fish Market when you were trying to get to the dentist.

One very swank Italian restaurant prints card-sized maps which are almost impossible to comprehend until you finally realise that North is down and South is up.

Once you have taken all the necessary precautions and have properly determined where you really want to go, you still have to face Tokyo's traffic, which has become just as diabolical as in most other major cities of the world. Still, if you take a taxi, you will almost always find the drivers courteous and honest.

And on those very rare occasions where you find a driver who speaks English, he will cheerily ask you where you are from, what you do, and, if you are a man, if you like Japanese girls.

One caution, though: if you do not know where you are going when you get in the taxi, the chances are that the driver won't know either (unless it is something obvious like, say, the Municipal Open-Air Fish Market), though he won't bother to tell you this until about 20 minutes into the ride.

Absolutely none of the streets, except for a handful of thoroughfares, have names

So you should be sure to obtain a map or clear description of your destination written in Japanese in advance to show the driver, along with a map or matchbook from your hotel for your return trip.

A much faster alternative is the train or underground; both are clean, safe, and frequent. Do not be intimidated by the heiroglyphic-like language - all the underground entrances and transfer points are colour-coded according to each line, and somewhere near the ticket machines you can almost always find a small, but nevertheless English, map showing the appropriate fares.

But even here, you can play it safe and just buy the cheapest (120 yen) ticket. If upon arriving at your destination you have not paid enough, do not worry - they will tell you.

But the convenience of the trains comes at a price: during rush hours, you are not packed in the cars like sardines, as is often reported - you are packed in like pate.

Underground in the summer, air-conditioning is provided on almost no trains and few of the stations, and the only access to many of the platforms is by staircase alone, a factor to reckon with when you consider that many of the platforms are further below sea level than the decks of the Titanic.

One final warning: when the underground trains stop running, generally at midnight, taxi drivers scour the streets looking for unfortunate souls who have missed their last train and who must now lash out Y12,000 or more to get back to their home in Yokohama.

And the last thing they want to do is stop for a foreigner - *any* foreigner - since they are probably tourists looking for a Y500 ride back to their hotel.

Thus, if you are caught away from home or hotel after midnight you can either (a) repair to a bar until about 2.30am when you might have a better chance, or (b), lie down in the road in front of a taxi.

The second method might work, but possibly only after the second or third taxi.